PRINCETON STUDIES IN INTERNATIONAL FINANCE, NO. 5

The First Three Years of the Schuman Plan

Derek Curtis Bok

INTERNATIONAL FINANCE SECTION
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THIS is the fifth number in the series called PRINCETON STUDIES IN INTERNATIONAL FINANCE, published from time to time under the sponsorship of the International Finance Section of the Department of Economics and Sociology in Princeton University. The author, Mr. Derek Curtis Bok, was an undergraduate at Stanford University and was graduated from Harvard Law School in 1954. He spent the following year in Paris on a Fulbright Scholarship. This study is based upon his research during that year and covers the activities of the European Coal and Steel Community to September 1955. The Section will provide single copies of the STUDIES in print (see the inside back cover of this STUDY) to United States residents on the basis of specific requests accompanied by 25 cents to cover mailing and packaging costs. No charge will be made for single copies requested by residents of foreign countries.

This series is intended to be restricted to meritorious research studies in the general field of international financial and economic problems, both policy and theory, which are too long for the journals and too short to warrant publication as books. The Section welcomes the submission of manuscripts for this series.

While the Section sponsors the STUDIES, the writers are free to develop their topics as they will. Their ideas and treatment may or may not be shared by the editorial committee of the Section or the members of the Department.

GARDNER PATTERSON, *Director*
International Finance Section

Princeton University
December 1955

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Foreword

In the years that have followed the close of the last World War, a succession of speeches, plans, and committees has reflected a widespread desire to unify or integrate in some way the various countries in Western Europe. Often overshadowed in the clamor for unity, quieter, more sceptical minds have been at work, their efficiency best measured by the series of discarded schemes of which the European Defense Community is but a more spectacular example. Of the projects that escaped this fate, however, none seemed more truly revolutionary than the Schuman Plan for Coal and Steel, for it promised to confer real international power on a body largely free from the veto of a single government and equipped with substantial powers to direct the activity and development of two vital European industries. Three years have elapsed since the Plan first came into active operation, and sufficient experience has been accumulated to permit at least a tentative assessment to be drawn of its progress. Both in its successes and in its hardships, the European Coal and Steel Community may serve to illuminate the tangle of arguments that have been interchanged on the proper steps toward greater unity, and, indeed, on the very desirability of integration itself.

I. The Goals of the Plan

A. Economic Objectives

In entrusting an international organization with control over the vital industries of coal and steel, the member governments hoped to achieve a number of objectives, both political and economic. The economic aims of the Plan arose out of the pressing problems that confronted the nations of Europe in 1949. Laboring to rebuild and expand their war-torn economies, these countries demanded a steady stream of inexpensive coal and steel. Moreover, exports were needed to strengthen precarious trade balances, and Europe was therefore anxious to regain the predominance in the international steel market that she had enjoyed before the war. At the same time, it was only too apparent that the coal and steel industries were in no position to make the contributions to the European economy that were so urgently needed. Coal from the fields in Pennsylvania could be mined and shipped to Hamburg at a price that could not be matched by most European enterprises. In steel, costs had risen by approximately 58 per cent since 1937 although a rise of only 49 per cent had taken place within the United States.[1] Moreover, the growth of American plants on the Atlantic and Pacific seaboards created a threat of low-cost steel crowding Europe permanently out of South American and Asiatic markets. In the face of these problems, politicians grew more receptive to the reports prepared by the teams of economists that had been studying Europe's industries since 1945.[2] To these experts, it was already apparent that the Second World War had only provided the capstone to a crisis that had been fermenting since the early 'twenties. For years before the war, investment in the steel industry had been discouraged by the policies of an international cartel which operated behind tariff walls to regulate production, restrain competition, and preserve to each member nation the right to exploit

[1] Economic Commission for Europe, *European Steel Trends in the Setting of the World Market,* Geneva, 1949, p. 47.

[2] The most important of these reports was the Economic Commission for Europe's lengthy document cited above, in footnote 1. This study was frequently referred to by M. André Philip in his speech in support of the Plan before the French legislature. *Journal Officiel de la République Française,* No. 90, Assemblée Nationale, July 26, 1950, pp. 5939 et seq.

its own domestic market.[3] Moreover, inefficient installations had long been kept alive by government subsidies while import restrictions served to limit the markets of efficient firms and thus prevent consumers from utilizing the cheapest sources of supply. By 1950, these problems threatened to become still more acute, for it was widely feared that a serious depression was in the offing, bringing with it the threat of a new international cartel in an attempt to stabilize the falling market. Together with the fear of a recession came the warnings of economists who declared that inadequate consultation between the national governments was destined to result in a wasteful expansion creating up to 8 million tons of useless capacity within the steel industries of Western Europe.[4]

Faced with these dangers, the authors of the Plan labored to fashion an institutional framework within which all these problems could be resolved. The result of their efforts was a Treaty providing a series of positive principles that cut directly across Europe's economic and political traditions. In place of a mosaic

[3] The structure and functions of the prewar cartel have been treated at length in a number of texts. In brief, the international cartel movement began in the steel industry under the pressure of recession and bitter competition and resulted in 1926 in a body that set national production quotas for crude steel and was empowered to punish offenders by fine. The cartel broke down in the Great Depression largely because it lacked power to set prices, had no direct control over finished products, could not inflict sufficiently heavy fines, and controlled only one-third of total world exports.

After several years of competition, a new cartel was created in 1933, comprising the major producers on the Continent at its inception and later incorporating Poland, England, and the United States within its membership. Reinforced by tariff walls, each member nation was guaranteed the right to exploit its own domestic market without interference. In the export market, the cartel was equipped with much more substantial powers than its predecessor. A general committee was given power to determine broad policies and organizational techniques. At the same time, various selling agencies divided production quotas for each product between the member states and in addition fixed prices and conditions of sale. Similar organizations within each state allocated the national quota between the various firms. Moreover, distributors in the various importing countries were licensed and signed exclusive dealing contracts with the cartel, and members refused to sell to nonlicensed dealers. In this way, resale prices were controlled by the cartel, and geographical price discrimination served to meet and drive out competitors.

See, generally, Hexner, E., *The International Steel Cartel*, Chapel Hill, 1943; Stocking, G. W., and Watkins, M. W., *Cartels in Action*, New York, 1946; and Rieben, H., *Des Ententes de Maîtres de Forges au Plan Schuman*, Lausanne, 1954, pp. 215-314.

[4] Economic Commission for Europe, *op.cit.*, pp. 66-76.

of separate national economies, the Treaty prescribed a common market embracing France, Germany, Belgium, Italy, Holland, and Luxembourg. Within this market, it was hoped that the coal and steel industries would eventually be concentrated in the hands of the most efficient producers through the elimination of trade restrictions on the one hand and the encouragement of a free movement of resources on the other. At the same time, a system of free competition was ordained in order to provide an incentive to lower costs and prices. And to forestall the reappearance of an international cartel, a central authority was conceived with power to stimulate competition, suppress restrictive and predatory trade practices, and influence and coordinate investment in such a way as to ensure a rational supply and a growing output of coal and steel.

B. Political Objectives

Although these economic goals were significant in themselves, even greater emphasis was placed upon political objectives, for the Plan was widely proclaimed as a step towards solving the long-standing political problems posed by Franco-German relations. By 1950, it had become apparent that a Germany deprived of its most important farmlands and overcrowded with refugees could not become economically viable without an expanding industry, and with the growing demand for steel occasioned by the Korean war, France could not expect the controls upon German production to be continued indefinitely.[5] At the same time, however, the French were fearful of an unbridled development of the Ruhr into a powerful arsenal which might once more become linked with the aggressive policies of a German government. Under these circumstances, the Schuman Plan was conceived by France as a compromise whereby she would give up a part of her sovereign power to secure a degree of international control over German coal and steel. It was also hoped that the common market would encourage a spirit of economic and political cooperation between the two countries; M. Robert Schuman went so far as to declare that "the solidarity in production thus estab-

[5] See speech by M. André Philip, *Journal Officiel de la République Française*, No. 90, Assemblée Nationale, Paris, July 26, 1950, pp. 5941 and 5943.

lished will make it plain that any war between France and Germany becomes not merely unthinkable but actually impossible."[6] Beyond the political problem of France and Germany, however, lay the prospect of an integrated Europe, an objective shared by the Christian Democratic parties, which were currently in power in France, Italy, and Germany. For though these parties realized that a united Europe could not be achieved within the immediate future, they hoped that the Schuman Plan might serve as an important first step, a concrete example which could encourage the formation of additional pools and even pave the way to an eventual political and economic unification of all continental Europe.[7]

[6] Quoted in the *London Times,* May 10, 1950, p. 6.

[7] See, e.g., Rieben, *op.cit.,* pp. 327-328. For a general discussion of the political motives underlying the Plan, see Reynolds, P. A., "The European Coal and Steel Community," *Political Quarterly,* July-September 1952, pp. 282 et seq.; Köver, J. F., *Le Plan Schuman—Ses Mérites et Ses Risques,* Paris, 1952; and McKesson, J. A., "The Schuman Plan," *Political Science Quarterly,* March 1952, pp. 18 et seq.

An interesting analysis of the Plan combined with a number of opinions as to its future development has been written by Parker, W. N., "The Schuman Plan—A Preliminary Prediction," *International Organization,* August 1952, pp. 381 et seq. The history of the political maneuvering leading up to the Plan is touched upon by Mendershausen, H., "First Tests of the Schuman Plan," *Review of Economics and Statistics,* November 1953, pp. 269 et seq. For a more detailed account tracing the reactions and methods employed by the French producer associations to block the Plan, see Ehrmann, H. W., "The French Trade Association and the Ratification of the Schuman Plan," *World Politics,* July 1954, pp. 453 et seq.

The reactions of the various political and private groups towards the Plan are summarized in considerable detail by Goriely, G., "L'Opinion Publique et le Plan Schuman," *Revue Française de Science Politique,* July-September 1953, pp. 585 et seq. Greatest opposition came from the Communist parties of all countries, German and French industrialists, Belgian coal interests, Italian steel, etc. Strong support was given particularly by the Christian Democratic parties of all nations, Belgian steel, Netherlands transport, Belgian and German labor groups, etc.

The analyses made of the structure and implications of the provisions of the Treaty have ranged from the wildly optimistic to the deeply pessimistic. The most detailed account is doubtless to be found in Professor Paul Reuter's *La Communauté Européenne du Charbon et de l'Acier,* Paris, 1953. The best-reasoned and most provocative criticism of the Plan is, in the author's opinion, that of M. François Perroux, *Europe sans Rivages,* Paris, 1954, pp. 530-584. For an example of the wholly pessimistic and rather unreasoned attacks that have been made on the Plan, see two works by M. Bernard Lavergne, *Le Plan Schuman,* Paris, 1951, and "La Grande Impuissance de la Haute Authorité du Pool Charbon-Acier," *L'Année Politique et Économique,* January-February 1954, pp. 80 et seq.

II. The Institutions of the Community

A. The High Authority

In pursuit of these goals, a number of institutions were created and endowed with a wide variety of powers over the coal and steel markets. Of paramount importance is the High Authority, which has been given the responsibility for initiating and framing virtually all of the measures needed to create and administer the common, competitive market. The Authority is composed of nine men, eight of whom are chosen by the member governments on the basis of "general competence," with the ninth being selected by the other eight.[1] Once appointed, the members are to serve for six years, and they must be free of all influence from the participating governments in carrying out their functions.[2]

The powers of the Authority are quite complex, but those that are of immediate concern to an analysis of the Community can be grouped into four general categories. In the first instance, the Authority is responsible for giving effect to the various provisions in the Treaty that are connected with the establishment of a common market. Tariffs of all kinds as well as other forms of trade restrictions must be eliminated;[3] likewise government subsidies unless approved temporarily by the Authority.[4] In addition, the Authority must issue the appropriate decrees to enforce the findings of the Transport Commission, which has been given the task of identifying unjustified discriminations in transport rates, of creating "through international tariffs," and of attempting to harmonize the rates and conditions among all forms of transport within the common market.[5] Finally, the Authority has considerable discretionary power enabling it to alleviate the impact of the common market during the initial five-year "transitional" period. Thus, provision is made for the granting of funds to help in moving and readapting workers whose employers have had to

1 Articles 9 and 10, *Treaty Establishing the European Coal and Steel Community* (cited hereafter as *Treaty*). Quotations taken from the Treaty are derived from the official English translation prepared by the High Authority for the Community.

2 Article 9, *Treaty.*

3 Article 4, Section a, *Treaty;* and Section 9, *Convention Containing the Transitional Provisions* (cited hereafter as *Convention*).

4 Section 11, *Convention.*

5 Section 10, *Convention.*

close down or modernize under the pressure of competition.[6] Moreover, the Authority must formulate and carry out a program to satisfy the special provisions in the Treaty that guarantee temporary protection to Belgian coal and to Italian coal and steel.[7]

A second series of provisions equips the Authority with wide powers to supervise the operation of the competitive market. Restrictive and discriminatory trade practices must be defined and suppressed,[8] and there is even power to issue binding decrees against employers whose wages are abnormally low or who have used wage cuts to compete with rival firms.[9] In addition, the Authority may block projected mergers or concentrations and can fine or even dissolve existing concentrations if their market power cannot be justified by economies in production or distribution.[10] Still other provisions permit the Authority to set maximum prices in the event that competitive conditions do not prevail.[11]

A third series of provisions has to do with finance and investment and provides the Authority with a variety of means to influence the development and growth of the coal and steel industries. As a foundation for the exercise of these powers, the Authority may compel producers to supply necessary information relating to investment plans and production trends.[12] A more controversial power conferred upon the Authority enables it to study all investment projects in advance and to forbid any firm from resorting to outside sources to finance a plan that is considered unwise.[13] In addition, the Authority may stimulate the development of new techniques by making grants to research projects and may also provide loans to firms seeking to modernize or expand.[14] Still further powers are included in the Treaty to enable the Authority to raise the funds needed to cover its administrative expenses and to finance its loans. Under these provisions, the Authority may borrow from governments or financial insti-

[6] Section 23, *Convention.*
[7] Sections 26 and 27, *Convention.* See pages 13-14 infra.
[8] Article 60, *Treaty.*
[9] Article 68, *Treaty.*
[10] Articles 65 and 66, *Treaty.*
[11] Article 61, *Treaty.*
[12] Articles 46 and 47, *Treaty.*
[13] Article 54, *Treaty.*
[14] *loc.cit.*

tutions and may levy a uniform tax upon all coal and steel enterprises at a rate not to exceed 1 per cent of gross earnings.[15]

Persuaded that competition alone could not be relied upon in time of boom or depression, the authors of the Treaty devised a fourth and final series of provisions enabling the Authority to cope with exceptional economic conditions in a manner analogous to that of a cartel acting in the public interest. Where high demand has threatened to create a serious shortage, the Authority may set maximum prices and if necessary may ration supplies of coal, iron ore, scrap, or steel.[16] Conversely, where a serious recession is impending, production quotas may be imposed,[17] and, in addition, minimum prices may be fixed.[18]

A number of methods have been devised by which the Authority may carry out its many powers and duties under the Treaty. Decrees may be issued against enterprises, and these are binding and obligatory in all respects.[19] Moreover, member governments may be given recommendations which are mandatory in the ends that they prescribe but leave the choice of means to the government in question.[20] Finally, advisory opinions on almost any issue may be directed to firms or to the member governments.[21]

B. Other Institutions

Entrusted with a variety of powers, the Authority is also subject to a number of checks and limitations exercised by the other institutions of the Community. Before employing certain of its powers, the Authority must in some cases consult[22] and in others receive

15 Article 49, *Treaty*. Article 50 provides that the maximum rate of tax may be increased if the Authority receives the approval of two-thirds of the Council of Ministers. Article 51 provides that funds borrowed by the Authority may be used only to grant and guarantee loans to enterprises.

16 Article 59, *Treaty*. In the first instance, the Authority may only propose an allocation system to the Council of Ministers, but if that body fails to agree on this or another method by unanimous vote, the Authority may proceed unilaterally.

17 Article 58, *Treaty*. The Authority must receive the approval of a majority of the Council of Ministers before imposing production quotas.

18 Article 61, Section b, *Treaty*.

19 Article 14, *Treaty*.

20 *loc.cit.*

21 *loc.cit.*

22 The High Authority must consult the Council of Ministers in the following cases:

a. In defining unfair and discriminatory practices. Article 60.

the approval of[23] a Council of Ministers composed of representatives from each participating government. Furthermore, once a year, the Authority must submit a report of its activities to a Common Assembly which discusses the report, directs questions at the officials, and if necessary can refuse a vote of confidence and thereby compel the selection of a new Authority.[24] In addition to the Council and the Assembly, provision has also been made for a Consultative Committee, which must include not less than thirty and not more than fifty-one members to be chosen by the Council of Ministers.[25] Composed of an equal number of labor, business, and consumer representatives, the Committee must be consulted by the Authority in certain specified instances and has in practice been asked its opinion on a wide variety of issues.[26] The last of

b. In fixing maximum prices to attain the objectives of Article 3, e.g., where active competition does not prevail. Article 61.
c. In setting up compensation schemes among coal mines located in different fields. Article 62.
d. In defining what constitutes control for purposes of the provisions regarding concentrations, Article 66, and the exemptions from those provisions.
e. In taking steps to prevent action by a member state which would impair competitive conditions. Article 67.
f. In making recommendations to enterprises paying abnormally low wages. Article 68.

[23] The High Authority must receive the approval of the Council of Ministers in the following cases:

a. In granting funds for research purposes. Article 55.
b. In granting funds to absorb displaced workers in industries other than coal, steel, and related industries. Article 56.
c. In imposing and terminating quotas on production in the event of a market crisis. Article 58.
d. In making allocation in time of shortage; if the Council cannot agree unanimously, the Authority may proceed unilaterally. Article 59.
e. In imposing export restrictions in time of shortage within the common market. Article 72.
f. In setting maximum and minimum levels for import restrictions on goods from third countries when market conditions so require. Article 72. (Unanimous approval must be secured.)
g. In taking extraordinary actions not expressly provided for in the Treaty. Article 95. (Unanimous approval is required.)

[24] A vote of no confidence requires a majority consisting of two-thirds of the votes cast and an absolute majority of the total membership. Article 24. The General Assembly is composed of seventy-eight delegates chosen by the parliaments of the member states. Article 21. See, generally, Articles 21-24.

[25] Article 18, *Treaty*.

[26] The literature on the Committee is not extensive, the most interesting article being that of M. André Metral, who subsequently became the President of the Committee, "Les Espoirs et les Angoisses Engendrés par la Communauté Européenne du Charbon et de l'Acier," *Société Belge d'Études et d'Expansion*,

the Community's institutions is the High Court, which consists of seven judges appointed for six-year terms by agreement between the member governments.[27] The authority of the Court embraces a curious conglomerate of powers rooted either in American or in Continental law or even in pure jurisprudential innovation arising out of the distinctive nature of the Community itself. The political structure of the United States appears to have provided the inspiration for a provision, unknown in most European countries, which enables the Court to annul any act of the Authority that contravenes the terms of the Treaty.[28] Much less familiar to American jurisprudence, however, is the power of the Court to compel the Authority to issue a decree or recommendation where such action is called for by the Treaty.[29] Finally, an almost unprecedented power permits the Court to annul any act which results in "fundamental and persistent disturbances" in the economy of a participating state.[30]

May-July 1954, pp. 634 et seq. In that article, M. Metral criticized the Authority sharply for not cooperating sufficiently with the Committee, but in a subsequent statement, he declared that his criticisms were no longer valid and that the Authority had adopted a more constructive and cooperative attitude. See the bulletin of "L'Agence Europe," November 22, 1954.

[27] Article 32, *Treaty.*

[28] Article 33, *Treaty.*

[29] *loc.cit.*

[30] Article 37, *Treaty.* The Court is also empowered to assess fines against offending enterprises where the Treaty so provides, and to award damages resulting from an "official fault of the Community" or from a "personal fault of [an] official or employee in the performance of his duties." Article 40. The Court must also review the procedure followed by the other institutions in making amendments to the rules relating to the exercise of the Treaty powers by the Authority. Article 95.

The literature on the Court is extensive, and only three of the more helpful works are included here. See Valentine, D. G., *The Court of Justice of the European Coal and Steel Community*, The Hague, 1955; Antoine, C. F., "La Cour de Justice de la C.E.C.A. et la Cour Internationale de Justice," *Revue Générale de Droit International Public*, April-June 1953, pp. 210 et seq.; and Jeantet, F. C., "Les Intérêts Privés devant la Cour de Justice de la Communauté Européenne du Charbon et de l'Acier," *Revue de Droit Public et de la Science Politique*, July-September 1954, pp. 684 et seq.

III. The Plan in Operation

With this brief description of the objectives and the institutions of the Community, an attempt may be made to analyze the Plan as it has actually worked in operation. Such an inquiry must be largely concerned with economic problems, for the political consequences of the Plan are still conjectural and cannot be predicted with any accuracy without considering in detail the effects of the Community upon the coal and steel industries within the common market. In examining the economic progress of the Plan, however, considerable care must be taken to determine what can be reasonably expected at this early date. Reduced to its most fundamental terms, the ultimate goal of the Community is probably to secure greater supplies of coal and steel at lower prices. It is very doubtful, however, that great emphasis should be placed upon price movements and expansion as criteria of the Community's progress. Conclusions based on the movement of prices are almost inevitably unreliable, since they must rest upon arbitrary and difficult assumptions as to what prices might have been realized under possible alternative conditions. Moreover, immediate reductions in price could not be reasonably expected or even desired, for the amounts charged by producers both in coal and to a lesser extent in steel were already kept at low levels by the member governments before the opening of the common market.[1] As a result of these ceilings, most of the enterprises throughout the Community were making little or no profit, and even the firms that were showing substantial gains were frequently able to do so not through greater efficiency but merely because they had long since written off the costs of fixed plant and equipment. Since only a small minority of firms could be classified as truly efficient, it was evident that prices could not be quickly reduced in a competi-

[1] One study lists the cost-price ratios of coal throughout the Community during the latter half of 1952 as follows (expressed in French francs): France, 4,700-4,500; Germany, 3,500-3,750; Belgium, 5,100-5,000; Holland, 3,500-4,600; the Saar, 4,750-4,450. Thus, costs exceeded price in several of the member countries. See "Les Industries Charbonnières de la Communauté Charbon-Acier et le Marché Commun du Charbon," *Études et Documents du Centre de Recherches Économiques et Sociales,* January 1953.

In regard to steel, the Economic Commission for Europe reports that prices were generally kept close to costs by the various governments. *European Steel Trends in the Setting of the World Market,* Geneva, 1949, pp. 45-46.

tive process designed to drive out the high-cost firms. The efficient enterprises were too few in number to expand with rapidity and absorb the business held by the multitude of less modern installations. Moreover, the political and social tensions accompanying the elimination of high-cost firms would have made the process too harsh to be endured. Thus, price changes during the first years of the Community were bound to be linked primarily to changes in the market; a lasting fall in prices could occur only after a long and gradual process involving the introduction of new and more efficient techniques.[2]

Although the Community was criticized during the recession of 1953 for its failure to stimulate the output of coal and steel,[3] it would appear that movements in the level of production serve no better than price changes as criteria of the Plan's success. A rising output of coal and steel must depend in large part upon a growing demand and hence upon general economic conditions in the member states, where the influence of the Authority is at best tenuous and remote. And while it is true that the producers themselves may succeed in promoting a rising demand for their products, their ability to do so depends upon the introduction of new techniques and more vigorous sales methods, processes that can develop only over a relatively long period of time.

In addition to the reservations that have already been made concerning the use of movements in price and production, it is also apparent that under a scheme such as the Schuman Plan, the achievement of concrete economic results depends to a large degree upon the existence of a common competitive market. The creation of such a market, however, is itself a formidable task in a Community composed of firms that have long enjoyed the protection of trade restrictions and have generally avoided active competition in their domestic markets.[4] Thus, after three short years, an

[2] See, e.g., Zawadzki, K. K. F., "The Economics of the Schuman Plan," *Oxford Economic Papers*, June 1953, pp. 167-169. For analyses of the needs and effects of modernization and technical innovation in the steel industry, see the documents prepared by the Economic Commission for Europe, *European Steel Trends in the Setting of the World Market*, Geneva, 1949, pp. 81-85, and *The European Steel Industry and the Wide Strip Mill*, Geneva, 1953. See also Chardonnet, J., *La Sidérurgie Française*, Paris, 1954, pp. 203-209.

[3] See, e.g., M. Gilbert Mathieu writing in *Le Monde*, May 19, 1954.

[4] See Chapter I, footnote 8 supra.

evaluation of the Schuman Plan should be concerned less with tangible gains and savings than with the progress that has been made in fashioning the mechanism prescribed by the Treaty to achieve its objectives. Such a discussion must be largely devoted to a critical description of the experience of the Community in coping with a series of problems arising either from the nature of the coal and steel industries or from the peculiar structure of the Schuman Plan itself. In the light of this experience, however, a number of observations can be made both on the prospects for the Plan in the future and on the suitability of a common competitive market for coal and steel and for other industries in Western Europe.

A. The Creation of a Common Market

The first step to be taken by the Community involved the elimination of artificial trade restrictions that both protected national coal and steel industries and prevented many consumers from purchasing these products from the sources that could produce and deliver them with the lowest economic cost. Certain of these barriers were unqualifiedly condemned by the Treaty. With respect to other restrictions, however, the Authority was given discretion to proceed in such a way as to minimize any harmful effects upon the economies of the member states. For there were many firms which depended heavily on protection, and the abrupt removal of all restrictions would have caused considerable unemployment, financial loss, and perhaps exchange difficulties.

1. TARIFF AND TRANSPORT RESTRICTIONS. Before 1953, tariff barriers and import quotas often hampered trade between the member states, as indicated by the table opposite of duties in force immediately prior to the Plan.

With the opening of the common market, all these restrictions were abolished except in Italy, where fixed tariff barriers were to be reduced steadily over a five-year period to give the steel industry an opportunity to prepare itself for eventual competition with producers in other member states.[5] Moreover, firms were

[5] With respect to the tariffs remaining in Italy, Section 30 of the Convention prescribes that customs duties on steel are not to exceed the levels set at the Annecy Convention of October 10, 1949 and must be reduced by 10 per cent in the

IMPORT DUTIES IMMEDIATELY BEFORE THE COMMON MARKET

(Per cent ad valorem)

	Benelux	*Italy*	*France*	*Germany*
Coal	0	0	0	0
Coke	0	5-10	0	0
Iron ore	0	0	0	0
Pig iron	0-1	11-20	5[a]	12[a]
Crude and semifinished products	1-2	11-15	7-10[a]	15-18[a]
Hot finished products	1-6	15-20	10-18[a]	15-25[a]
Finished steel products	6-8	15-23	16-22[a]	15-28[a]

[a] Temporarily suspended during the Korean war boom. Duties were subsequently enacted by all participating states for trade with nonmember countries.

Source: Figures are taken from Mendershausen, H., "First Tests of the Schuman Plan," *Review of Economics and Statistics*, November 1953, p. 273.

forbidden to charge prices on the domestic market which differed from those offered to customers in other member countries, thus putting an end to the traditional practice of "double pricing." In addition to "double pricing," domestic firms had also been protected by the national railways, which manipulated rates so as to favor local producers and discourage foreign competition. Through the efforts of the Transport Commission, however, all of the serious discriminations were abolished so that rates could no longer be varied according to the nationality of the place of shipment or delivery.[6]

2. SUBSIDIES. The problems of national subsidies proved to be particularly delicate, for the elimination of all such payments would have had serious economic repercussions on both consumers and producers, and the subsidy itself provided the Authority with a flexible instrument with which to soften the impact of a common market. Thus, a number of subsidies have been maintained with the permission of the Authority. The most important of these programs is one which was provided by the Treaty itself

second year, 25 per cent in the third, 45 per cent in the fourth, and 70 per cent in the fifth, and disappear totally thereafter. The coke provisions are contained in Section 27 of the Convention and are identical with those applying to steel except that the upper limit is that of Presidential Decree No. 442 of July 7, 1950.

[6] The elimination of these restrictions and the benefits resulting therefrom are traced in considerable detail in the High Authority's *Second General Report*, April 11, 1954, pp. 32-72.

to afford temporary relief to the Belgian coal industry so that it might continue its efforts to modernize and eventually engage in unprotected competition.[7] Before entering the Community, Belgium received a guarantee that her total output would not be reduced by more than 3 per cent a year during the first five years unless the levels of production in other member states had declined proportionately. In order to carry out this obligation, a subsidy fund has been established, financed by equal payments from the Belgian government and from a "perequation tax" levied upon coal enterprises in Holland and Germany, where costs are lower than in the other participating countries. The funds have been used both to enable Belgian mines to compete effectively in their domestic market and to lower the price of limited amounts of coal for export to Italy, Holland, and Germany. In addition to the Belgian subsidies, provision was made in the Treaty for the payment of perequation funds to the Italian coal mines in Sardinia, where costs are very much higher than elsewhere in the Community.[8] As a result of these subsidies, some 5 million dollars had been distributed to the Italian mines by March of 1955, while almost 23 million had been given to Belgian producers.[9]

Aside from the programs in Belgium and Italy, a number of subsidies maintained by the French government have been allowed to continue temporarily, though the amounts that can be given have been strictly limited. As the table opposite shows, considerable progress has been made by the Authority in cutting down these assistance schemes; in 1954 all of them had been markedly reduced from the levels that obtained in 1953—just before the opening of the common market.

Most of these payments have been justified in large part by the existence of certain transport discriminations which artificially raise the costs of shipping coal by rail between France and Germany. Provision has now been made, however, for the elimination of these discriminations with the result that many of the subsidies may disappear almost entirely by mid-1956.[10] Still greater success has been enjoyed in Holland, where the Authority

[7] Section 26, *Convention.*
[8] Section 27, *Convention.*
[9] Common Assembly, *Rapport sur l'Application du Traité,* April 30, 1955, p. 21.
[10] See pages 20-24 infra.

confronted a program of government aid consisting of a fund designed to equalize the prices of the various types of coal. By April of 1954, the fund had been modified to apply only to non-industrial users, and in the following year the program was eliminated entirely.[11]

REDUCTIONS IN THE AMOUNT PER TON OF FRENCH SUBSIDIES
(French francs)

Subsidy	*1953*	*1954*
Plants producing briquettes on the North Coast	2,187	1,933
Imports of coking coal for steel	1,352	1,053
Imports of coke for steel	401	143
Exports of Saaro-Lorraine coal to southern Germany	780	743

Source: High Authority, *Third General Report,* April 10, 1955, p. 90. Not included in the *Report* is the interbasin compensation fund designed to benefit those fields which are less able to compete or to make profits at current prices. Due to investment and modernization, however, disparities in costs between the fields have diminished, thus reducing the subsidy to a very low level.

3. ZONE PRICES. In order that certain coal fields should not be deprived too abruptly of important markets, exceptions were made to the principle of nondiscriminatory pricing.[12] During the summer of 1955, for example, producers in the Nord–Pas-de-Calais fields were authorized to sell certain grades of coal at lower prices in selected zones to help the mines reduce their stocks, which had reached dangerously high levels. Moreover, Saaro-Lorraine coal producers have been allowed to charge a special price in the South German market as well as in western France, where they face considerable competition from British and Polish concerns. German coal firms, on the other hand, which had traditionally granted special rebates to certain classes of customers including railways, thermal stations, and the like, were permitted to continue some of these rebates until April 1954, when all were abolished.

4. THE RESULTS OF THE COMMON MARKET. In addition to these temporary measures, certain restrictions still remain which have not as yet been attacked directly by the High Authority. Administrative formalities are said to impede to a limited extent the

[11] See High Authority, *Third General Report,* April 10, 1955, p. 92.

[12] The zone prices existing as of April 1955 are noted in High Authority, *Third General Report,* April 10, 1955, pp. 87-90.

free flow of coal and steel among the member countries; prices on the various water routes are still markedly lower for international shipments than for purely domestic carriage, and very little has been done to regulate the rates and conditions of road transport.[13] Nevertheless, the progressive removal of trade restrictions has undoubtedly been one of the most successful aspects of the Plan, and free of these barriers, trade between the member states has not ceased to grow since the opening of the common market. Presumably, these figures reflect a shift on the part of consumers

INTERCHANGE OF COAL AND STEEL BETWEEN THE MEMBER STATES
(Thousands of tons)

	Coal	*Steel*
1952	24,419	2,108.4
	Opening of common market	
1953	26,994	2,810.4
1954	30,583	4,216.3

Source: Figures taken from High Authority, *Third General Report,* April 10, 1955, p. 72.

[13] It is very difficult to ascertain precisely how administrative formalities impede the flow of goods between the member states. In any event, a licensing system has generally prevailed by which permits have been given automatically for shipments across national boundaries. The High Authority has hoped to eliminate this practice since the exchanges are at least potentially within the control of the member states and since the permits, if automatically given, serve no useful purpose. Thus, the Authority has declared its intention to substitute a system of standardized customs declarations combined with a clearing certificate, forms of this nature being needed to provide for the compilation of necessary commercial data by the member governments. The progress of the Authority along these lines is summarized in its *Third General Report,* April 10, 1955, pp. 101 et seq.

With respect to water transport, the policy taken by the member states has been to regulate only domestic rates while allowing international charges to fluctuate more or less freely. The prices set for domestic traffic have generally been fixed to cover the average total cost of the firm. Thus, fixed costs are largely absorbed by the receipts from these internal shipments so that the firms may make a profit on international traffic by charging any rate which exceeds marginal costs. The result has been to drive down international charges well below the domestic levels. The effect of these disparities has been most apparent in France, for subsidized Belgian coal has been able to take advantage of the low water rates to compete successfully against French coal in the Northwest of France. See page 18 infra. For the status of the problem as of March 1955, see High Authority, *Third General Report,* April 10, 1955, pp. 111 et seq.

The problem of road transport is an extremely complex one, for state rate legislation exists only in Germany and to a limited extent in Holland. Moreover, the industry is fragmented into hundreds of small concerns who do their business by private contract, so that information is hard to obtain and rules are difficult to enforce.

to more economical sources of supply, resulting in a benefit to the Community either through lower prices charged to the buyer or through savings to the member governments in the form of diminished subsidies.[14] The steel enterprises have been aided particularly; prior to the common market, coal and ore producers charged excessive export prices in an attempt to compensate for the ceilings placed by their governments on the prices charged domestic consumers. Since no country in the Community is self-sufficient in the raw materials used in the production of steel, all were suffering from this "double pricing" and all have therefore benefited from the introduction of a common market. French iron ore can now be bought more cheaply by Belgian and Dutch firms. Lorraine producers pay less for their valuable coke imports from the Ruhr, and Italians can now find scrap more easily. Even the German steel companies have profited, for though they do not depend on any country in the Community for their raw materials, reductions in the delivered price of Lorraine ore have forced Swedish producers to charge a lower amount in order to safeguard their markets in the Ruhr.

As yet, the course pursued by the High Authority has not resulted in any grave disturbance in the economies of the member states, although the assistance given to Belgian and Italian mines raises problems which will be explored further on in the discussion.[15] Strenuous objections have also been infrequent and have generally been met satisfactorily. In Germany, for example, domestic consumers far from the coal and steel plants were required to pay transport charges on only the first 220 kilometers of the shipment, but after considerable negotiation the High Authority managed to have this special treatment extended to shipments coming from other member countries.[16] On the part of the French,

[14] A favorable account of all these savings is contained in the High Authority's *Second General Report,* April 11, 1954, pp. 32-72.

[15] See pages 59-64 infra.

[16] See Philip, A., *L'Europe Unie et Sa Place dans l'Économie Internationale,* Paris, 1953, pp. 233-237.

It should be noted that this decision did not serve to reflect with accuracy the competitive position of the German and Lorraine firms vis-à-vis the South German market. What it did was to equalize transport costs on shipments of more than 220 kilometers, so that the geographical advantages of Saaro-Lorraine producers over their Ruhr competitors remained obscured through the action of the railway rates.

complaints were advanced concerning the inroads being made in French domestic markets by subsidized Belgian coal, and the rates of subsidy were eventually altered to meet this objection.[17] Somewhat more serious was a unilateral decision by the French government to impose a perequation fund to equalize international and domestic water transport rates and thus increase the delivered price of imported Belgian coal. After considerable study and negotiation, however, the fund was condemned by the Authority and came to an end one year after its creation.[18]

B. Further Problems in Creating a Common Market

Despite the many trade restrictions that have been removed, it is reasonably clear that the creation of a common market requires, at least in theory, the disappearance of many protections that were not mentioned explicitly in the Treaty. The line between "real" and "artificial" is of course a shadowy one, but its contours can at least be roughly sketched in the light of the basic ends which competition is designed to serve. Fundamentally, the function of competition is to provide an incentive for reducing costs and prices to a minimum and thus to encourage a more efficient location and use of productive resources. As a result, it would appear that the competitive position of the various firms should be determined entirely by their ability to produce and deliver coal and steel at the lowest economic cost. More precisely, no producer should have an advantage over his competitors which does not result from superior technical and administrative efficiency or from a more favorable position in relation to relatively unchangeable factors of which the most important are the nature and location of markets and sources of supply.[19] Few markets, of

[17] See High Authority, *Rapport Mensuel,* November 1953, p. III, 21. The French had filed a complaint with the High Court but withdrew it upon the action of the Authority. It should be noted that while subsidy rates were altered, the total amount given to the Belgian firms remained unchanged.

[18] See High Authority, *Rapport Mensuel,* July 1954, pp. III, 3-5.

[19] In the opinion of the author, no *precise* standards can be applied in actual practice to determine what are undesirable or artificial inequalities. But if such criteria can be found, they should doubtless be premised upon a careful selection of the exact range of interests that they are designed to serve. The two most likely alternatives are the equities of the steel and coal producers (and their employees) and the welfare of the public as a whole.

In theory, the criteria do not seem overly complicated. If the equities of the

course, could be expected to conform to this highly theoretical ideal; extraneous influences are bound to be present. Within the Coal and Steel Community, however, these influences are multiplied and enhanced by political and cultural differences between the member states and by separate and differing national economies which inevitably exert unequal pressures on the coal and steel firms throughout the common market. Moreover, many of these inequalities have become so firmly rooted in the various member countries that the benefits resulting from their absence would be outweighed by the costs attending their removal.

1. TRANSPORT. Artificial inequalities have been particularly apparent in the field of transport despite the early elimination of railway rates discriminating between foreign and domestic shipments. Such inequalities are very likely to have a pronounced effect upon the competitive position of firms within the Community, for transport costs frequently represent 15 to 25 per cent of the delivered price of coal and may make up as much as 20 to 30 per cent of the price of steel if transport charges paid by the

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producer are taken as the standard, it would appear that a common market should ideally eliminate all disadvantages not resulting from the errors or inaction of the producer. Under such a standard, differences *between countries* arising from the nature of raw material sources and markets (as well as disparities in transport costs, wage levels, etc.) should be eliminated, at least with respect to existing firms, since restrictions have prevented producers in the past from building their enterprises in whatever country they chose. Thus, for existing firms, costs of labor, raw materials, and other factors of production would not vary from country to country, and producers would have equal selling opportunities.

To carry the practice of the common market to this extreme appears unthinkable. If, therefore, the second alternative is adopted and public welfare becomes the standard, only those restrictions should be removed whose suppression would further the public good in an amount exceeding the costs attending removal. The obvious difficulty with this process, however, is that such costs and benefits cannot be measured with accuracy since they involve unlike quantities and since they are often subjective in nature. For example, French producers have often suffered from the fact that freight rates are kept at a relatively high level to permit the government to lower the cost of transport for private passengers. Any attempt to decide whether the burden to steel producers would outweigh the benefit to private passengers would be in itself a highly arbitrary process, and the additional problems in locating and weighing all the other interests and groups affected would be formidable indeed.

Despite these practical obstacles, it is likely that the second standard is more often the basis of theories and programs for the creation of a common market. But it is equally apparent that many persons will disagree in weighing the benefits and disadvantages involved in the possible removal of each inequality, and more particularly, that many will attach great weight to the equities of the producer and of the men in his employ.

producer in obtaining raw materials are taken into account. The importance of this problem did not pass unnoticed in the drafting of the Treaty, for provisions were included which could be construed to require a system of transport rates so adjusted that the price of shipping coal and steel over any given distance would be the same throughout the common market. Unfortunately, however, the language of the Treaty was too indefinite, for Article 70 merely required that transport rates be set in such a way as to create "comparable price conditions to consumers in comparable positions." As time went on, strong national pressures capitalized upon the ambiguities of this phrase to lift the remaining transport problems from the command of the Treaty into the uncertain realm of intergovernmental negotiation.[20]

Among the most publicized of the transport questions was the so-called *rupture de charge* whereby goods passing from one member country to another were treated as a series of separate shipments stopping and starting again at each frontier. Since railway charges are degressive, the rate per kilometer decreasing as the distance of the shipment grows longer, the effect of the *rupture de charge* was to raise the cost of transport above the level that would be charged for a shipment of comparable distance taking place entirely within a single country. Moreover, the railway authorities carried the fiction of separate shipments even further by charging loading and terminal fees even though no change in trains occurred. As a result of these practices, transport rates on international shipments were frequently 25 per cent above those

[20] Among the factors involved in this process were the following:

a. The absence of procedural provisions in the Treaty to establish the validity of any decision of the Transport Commission not taken unanimously
b. The emphasis placed by the Treaty on discriminations, thus permitting the suspicion that the *rupture de charge* and the disparities in national base rates were of relatively minor importance
c. The introduction in the Convention of safeguard measures in case certain transport objectives, notably the "harmonization of rates," were not attained by the Commission, thus allowing the possibility that no agreement was necessary
d. The opening of negotiations by the Authority with the member governments, evoking the idea that Section 10 of the Convention was merely a desirable goal and not a necessary and obligatory means to carry out prescribed obligations in the Treaty

See *Revue Générale des Chemins de Fer,* October 1954, pp. 504 et seq.

applying to purely domestic carriage, and the effect on international commerce was thus not unlike that of a tariff.

The member governments had agreed that a Commission of Experts should establish "through international tariffs" by the first of May 1955, but the attempts to implement this vague provision gave rise to varying points of view which at times seemed all but irreconcilable. In view of the great differences in the rates charged in the various countries, it was evident at an early date that the Treaty would not be interpreted to require complete uniformity in transport charges throughout the common market.[21] Moreover, attempts to arrive at a less drastic solution led to controversies arising primarily from the varying effects which the international rates would have upon the transport systems and upon the national coal and steel industries. Since shipments of coal and steel account for 40 per cent of all freight receipts within the Community, the significance of any change in rates was bound to be considerable, and a removal of the *rupture de charge* promised to result in a substantial loss of revenue to the railways, which were almost all operating already at a deficit. At the same time, the potential effects of international rates were viewed with mixed emotions by the coal and steel interests. The position of the French was particularly uncertain, for if international rates would weaken the grip of Nord coal on the valuable Paris market, they would also improve the position of Lorraine steel men by lowering the transport charges on imports of coke. In the Ruhr, steel producers feared the loss of valuable markets, for the geographical position of the Saar and Lorraine firms would enable them to ship their products to southern Germany more cheaply than their German competitors. The Ruhr producers were also concerned by the fact that their cost advantage over Lorraine would be partially reduced by the lowering of the delivered prices of German coke. Coal interests, on the other hand, were less apprehensive, since the reductions in international rates promised to increase their sales in France. But even among the mine owners there was some concern, for the removal of the *rupture de charge* would aid the

[21] National base rates vary at a ratio that in some instances reaches 1 to 3. Moreover, the variations between the base rates for the various types of coal and steel differ markedly from country to country. See, e.g., Economic Commission for Europe, *Economic Bulletin for Europe,* Geneva, 1950, Vol. 2, No. 2.

Saaro-Lorraine producers in the South German market and would lower the delivered price of Belgian and Dutch coal seeking outlets in northern Germany. In view of these risks, German coal interests refrained from taking any definite position on the question until a decision by French coke importers to withhold their orders succeeded in persuading the mine owners in the Ruhr to support the elimination of the *rupture de charge*.

Faced by this myriad of conflicting interests, the Transport Commission found its path beset with obstacles, and only after months of deliberation could a compromise be found which would satisfy all of the varying points of view.[22] It was finally agreed that rates of degressivity should be computed according to the entire length of the shipment, and at the same time provision was made for the elimination of fictitious loading and terminal charges. A uniform formula of degressivity was also established, to be applied to the national base rates on all shipments of less than 200 kilometers for scrap and steel and 250 kilometers for coal and iron ore. For shipments of greater length, the various governments were free to set their own formula of degressivity subject to the proviso that the rate of degression on hauls of less than 400 kilometers could not go beyond certain minimum and maximum levels. These reforms were to be carried out in gradual steps; the uniform degressive formula was to be applied to coal and ore by May 1, 1955, and to steel and scrap one year later; terminal taxes were to be reduced in two stages so that they would disappear from all products by May 1, 1957.

These measures, shown in the table opposite, undoubtedly represent a large step forward in the steady progress that has been made in reducing international railway charges.

The new rates will be of particular benefit to certain groups. Steel producers in Lorraine, for example, will find the delivered price of coke reduced by 400 francs a ton, and the Belgian plants

[22] The most comprehensive account of the progress of the Transport Commission and the various pressures that it encountered can be found in a series of articles in the *Revue de la Navigation Intérieure et Rhénane*. See, particularly, January 25, 1955, pp. 51-53; March 25, 1954, p. 393; and December 25, 1954, p. 783. For more general observations on the transport problem, see High Authority, *Bulletin from the European Community*, February-March 1955, pp. 1 et seq., and Hutter, R., "L'Harmonisation Européenne des Transports," *Hommes et Commerce*, January-February 1955, pp. 49 et seq.

will now pay considerably less for French iron ore. At the same time, numerous opportunities still exist to protect domestic industries. Since the Italian market lies more than 400 kilometers from the Ruhr and Lorraine, the present low levels of degressivity on the Italian railways can be preserved to protect the local steel

REDUCTIONS IN INTERNATIONAL FREIGHT RATES SINCE THE ADVENT OF THE COMMON MARKET

(French francs)

	Before common market	*After suppression of discrimination*	*After introduction of direct tariffs*	
			May 1, 1955	*May 1, 1956*
Coke				
Germany-France (Gelsenkirchen-Homecourt)	2,331	1,992	1,694	1,599
Germany-Luxembourg (Gelsenkirchen-Esch)	2,603	2,546	2,128	1,962
Belgium-France (Zeebrugge-Thionville)	1,706	1,640	1,661	1,579
Coking coal				
Germany-Saar (Alsdorf-Saarbrücken)	2,157	1,959	1,668	1,599
Coal				
Saar-Germany (Reden-Grube-Regensburg)	3,187	2,633	2,419	2,341
Iron ore				
France-Belgium (Sancy-Ougrée)	850	784	674	606
Luxembourg-Germany (Tétange-Duisburg)	1,243	1,067	973	912

Source: These figures are presented in greater detail in the High Authority's *Third General Report,* April 10, 1955, pp. 108-109.

producers.[23] The French railways can likewise help to safeguard the Paris coal market by keeping the degressive rate at a low figure, since the Ruhr is more than 400 kilometers from the French capital. In southern Germany, Ruhr producers can continue to receive a measure of protection against the French. Munich, for example, lies within 400 kilometers of the Saar and Lorraine, so

[23] In considering this discussion, the reader should be careful to remember that at a given distance and a given base rate, a higher rate of degressivity implies a lower total transport charge than a lower degressive rate.

that definite limits exist to the rate of degressivity applied;[24] on the other hand, the distance to the Ruhr is much greater so that the Bundesbahn can fix the rate at any level it chooses in order to lower the delivered price of German products. Much the same situation prevails in the Stuttgart market, for as that city is less than 250 kilometers from Lorraine, French coal producers are subject to the uniform formula while their German competitors, who are at a greater distance, retain the possibility of enjoying a much higher degressive rate.[25]

Aside from the *rupture de charge*, certain other problems remain which have a marked effect upon competition between France and Germany. The first of these problems arises from the fact that the French railways grant rebates on full-train shipments while the German Bundesbahn does not. As a result, the vital imports of Ruhr coke cost more in Lorraine than they would if they had been shipped entirely in France. A similar problem results from the German railway rates on iron ore, which are only half as great as those charged for comparable loads of coke. The obvious effect of these rates is to subsidize the relatively inefficient German ore mines and to minimize the disadvantages that Ruhr steel producers encounter in being situated near coal rather than iron deposits. It is also quite certain that the low rates on ore are

[24] The maximum level is determined by taking the lowest rate of degressivity currently in force within the Community. The minimum is somewhat more complicated. There is a general average minimum based on the existing rates in the member countries. On German railways, however, the extremely high German degressive rate may still be applied but must be extended to shipments coming from other member countries—and going to other member countries.

[25] In essence, the ability of German railways to protect the South German market will exist so long as the Bundesbahn has power to determine its own rate of degressivity and to carry that rate to a high level. See the preceding footnote. For inasmuch as Lorraine is closer than the Ruhr to any consumer in this market area, the Bundesbahn can maintain a system whereby degressivity increases at a sufficiently rapid rate to eliminate in large part the disadvantages of the Ruhr arising from its geographical position in relation to South Germany. No categorical predictions, however, can be made regarding the influence of German steel on the policies of the Bundesbahn. It is likely that the major concern of the German government is not the protection of Ruhr producers but keeping prices of raw materials at a low level in South Germany, thus stimulating local industry and helping to solve the problem of overpopulation and potential unemploymnt that exists in areas such as Bavaria. It is therefore possible that the Bundesbahn will not be entirely responsive to the demands of the steel and coal interests, since a higher degressive rate on shorter shipments would permit consumers in South Germany to buy at a lower delivered price from the Saar and Lorraine.

compensated to some extent by higher rates on coke, thus handicapping the French producers still further.

The last of the Franco-German transport problems is perhaps the most important of all those that have been discussed. The immediate question centers on the efforts to canalize the Moselle River, but the issues at stake are much more basic and are founded on the relative positions of France and Germany with regard to transport facilities. German coal and steel derive considerable advantage, particularly in the overseas market, from their location on a well-integrated system of rivers and canals which permits producers to take full advantage of water transport, where rates are considerably lower than those charged by the railroads. France, on the other hand, must depend primarily on railways, for she lacks a comparable network of rivers and has neither increased nor adequately repaired her canals during the last several decades.[26] Realizing the competitive disadvantages arising from the differing transport facilities, the French government, strongly backed by Lorraine producers, has frequently attempted to win the approval of the German government for the canalization of the Moselle. Once completed, this project would provide the Saar and Lorraine with a water route to the Ruhr and a link, via the Rhine, with the export center of Rotterdam. Moreover, the canal would enable the steel plants in Lorraine to lower the transport costs of Ruhr coke by at least 25 to 30 per cent and would sharply reduce the shipping charges of steel destined for overseas markets. Thus far, however, negotiations between the two governments have not been fruitful, and there is little doubt that the failure to come to an agreement has been largely caused by pressure from the many interests that would be endangered by such a project. Despite the tremendous advantages to Lorraine steel plants, even France may not be 100 per cent behind the scheme, for the hard-pressed national railways would lose much valuable business and the port of Dunkirk would be severely affected by the loss of export business to Rotterdam. Belgian interests are also affected, for Antwerp would share much

[26] The transport advantages of the Ruhr vis-à-vis Lorraine are summarized in Pounds, N. J. G., *The Ruhr*, Bloomington, Indiana, 1952, Chapter 7, and Chardonnet, *op.cit.*, pp. 162-199.

the same fate as Dunkirk, and Belgian steel men, who depend heavily on overseas exports, would face sharper competition from the French. The greatest opposition to the project, however, is probably to be found in Germany, in part because of the losses that would be sustained by the Bundesbahn and still more because of the reduction in cost that the canal would bring to Lorraine steel. As a result of these conflicting interests, prospects for an early agreement are rather dim, and Lorraine producers seem destined to continue to import their coke by rail.[27]

The root cause of the Franco-German transport problems lies in the one-sided nature of trade between Lorraine and the Ruhr. Since Lorraine depends on heavy imports of coke from Germany, steel producers in the Ruhr can receive protection through higher transport rates on that product. On the other hand, the French cannot retaliate by raising the charges on iron ore since Germany is supplied not by Lorraine but by Sweden and by her own mines. And though many observers hoped that the common market would result in a shift from Swedish to French ores,[28] German plants are not equipped to process the lower-quality Lorraine minettes, and Swedish prices have been reduced sufficiently to discourage any investment to convert the Ruhr installations.[29] In view of the

[27] For a concise account of these varying interests and pressures, see *France Observateur,* November 25, 1954, pp. 16-17, and Chardonnet, *op.cit.,* pp. 197-199. The resulting advantages and the cost and method of financing are summarized by Chardonnet, pp. 192-197; see also "L'Aménagement de la Moselle," *L'Économie,* June 11, 1953.

[28] Before the opening of the common market, some observers predicted that German mines would give way to competition from Lorraine. These forecasts seemed particularly persuasive in the light of a comparative cost analysis which revealed that the delivered price of Lorraine ore in 1952, assuming no transport discrimination, would be $13 to $15 per ton, while German pit-head prices stood at $42. See Zawadzki, *op.cit.,* p. 178. While German ore production declined from 12,924,000 tons in 1952 to 9,705,000 tons in 1954, it was the Swedes who profited, for the amounts of ore received from Lorraine and Luxembourg steadily declined from 813,600 tons in 1952 to 608,400 in 1953 and 342,500 in 1954. See High Authority, *Third General Report,* April 10, 1955, p. 80.

[29] Maurice Byé reports that the price of Swedish ore dropped by 12 per cent from January to June, 1954. "Les Aspects Économiques de la Communauté Européenne du Charbon et de l'Acier," *Droit Social,* August 1954, p. 547. Another factor, mentioned by J. Driscoll, is that Swedish ore can be brought to Germany by a number of competing routes and methods, which tends to drive down transport costs. On the other hand, there is only one practicable route for ore travelling from Lorraine to the Ruhr. "Early Days in Schumania," *Journal of Industrial Economics,* April 1954, p. 109. The use of Swedish ores is further encouraged by the fact that they are of higher content than the French

clear advantages enjoyed by the Ruhr, a solution to the transport problems is by no means certain, particularly now that the Transport Commission has passed through the period allotted to it in the Treaty for the completion of its tasks. Discussion will continue to take place between the member governments, however, and should provide, as it has in the past, one of the most accurate barometers for measuring the interplay of national interests within the framework of this international organization. But should these problems remain unsolved, considerable importance will attend the efforts of Lorraine producers to improve techniques for coking domestic coal, for a continued dependence on German imports might make them suffer heavily in competing with the Ruhr.[30]

2. EXCHANGE RATES. Artificial inequalities may result not only from the various transport problems discussed above but also from the fact that competing producers from different countries must compare their prices through the prevailing rates of exchange. Since exchange rates are primarily designed to balance imports and exports, their use in a common market will generally distort the differences in production costs that would exist if a single currency were employed. Moreover, though money costs fluctuate in varying degrees in the countries of the Community, exchange rates tend to be much less flexible. Within the common market, this tendency is particularly apparent; for since the Bretton Woods Conference, emphasis has been placed upon maintaining stable rates with international reserves and frequently import restrictions being used to cure all but the fundamental disequilibria in the balance of payments. As yet, however, the various national economies have been sufficiently stable to avoid any serious competitive disadvantages of this nature, though it is generally believed that French producers suffer somewhat from an overvalued franc, particularly in relation to their German competitors. On the other hand, serious problems could arise in the event of a marked inflation or depression in one

minettes (60 per cent as opposed to 32 per cent), thus permitting a higher yield per ton of ore transported and allowing certain economies in the use of coke, particularly in open hearth furnaces.

[30] The progress that has been made in cokefying Lorraine coal is summarized in some detail by Chardonnet, *op.cit.*, pp. 74-89.

or more of the member states. In a country suffering from inflation, for example, producers would have to meet rising production costs, notably in the form of increasing wages, and to the extent that these increases were not reflected accurately by adjustments in the rates of exchange, important competitive inequalities would result. Moreover, the very existence of the Community would complicate any adjustments in the rate, for the devaluation that would be required for the economy as a whole might vary considerably from the change needed to offset exactly the increase in costs to the coal and steel producers.[31]

3. WAGE COSTS. Differing wage levels create still another inequality within the Community, for although wages generally vary considerably in any market of great geographical size, there are several factors peculiar to the Schuman Plan which tend to intensify these differences. The existence of national boundaries separating linguistic and cultural groups decreases labor mobility, thus causing the supply of and demand for workers, and therefore wages, to vary between the countries. Moreover, pay rates in a particular industry are generally a function to some extent of the wage structure of the economy as a whole. In the coal industry, for example, wages are usually set at least 20 to 25 per cent higher than the general pay level, an incentive being required to maintain a sufficient labor force in what is commonly regarded as a disagreeable occupation.[32] Thus, since wage structures differ among the national economies, steel and coal wages will tend to vary as well. Similar tendencies may occur as a result of other

[31] It is also clear that the precise changes in rates that would be needed to compensate for the rising costs in coal and steel production would be all but impossible to measure; hence, a wide range of possible solutions would exist, providing ample room for intergovernmental disputes with the threat of retaliatory devaluation. Moreover, it is likely that the impact of inflation or depression would not be the same for coal as for steel, at least in the short run, since the proportional costs of labor, raw materials, etc., vary sharply between the two industries.

Tensions could also arise in the event of the loss of important foreign markets or from any other cause producing a disequilibrium in the balance of payments in one of the member states. Any attempt to adjust the exchange rate would be likely to bring forth protests from the coal and steel interests in other participating nations, particularly if the cause of the disequilibrium did not affect the competitive position of the coal and steel firms in the adjusting country.

[32] At times, this relationship is enforced by law. Apparently, in France there is a law that miners' wages must be kept at a certain fixed percentage above the prevailing wage levels in the Paris metallurgical trades. See *Le Monde*, March 4, 1955.

factors, such as differing forms of labor organization,[33] varying national wage policies, and national peculiarities in the tastes and habits of the working force.[34] As a result, the base rates of pay throughout the Community vary considerably from country to country.

BASE WAGES IN COAL AND STEEL INDUSTRIES, 1953
(French francs)

	Coal	*Steel*
France	190.57	154.15
Germany	171.66	171.66
Belgium	207.97	212.52
Saar	202.35	162.83
Italy	105.84	132.66
Luxembourg	——	231.49

Source: Figures are taken from High Authority, *Third General Report,* April 10, 1955, pp. 162-163 and 166-167, and are then translated into French francs by applying the official rates of exchange in force during 1953. Reliable figures for later years were not available at the date of writing.

Variations in base wages, however, cannot realistically be separated from the multitude of social security contributions, family allotments, and related charges that help make up the total wage bill carried by the producer. In several instances, the addition of these charges, as shown in the table on the following page, does much to offset the variations in base rates of pay, even though significant differences still remain.

[33] The traditions and methods of French and German labor organization provide a typical illustration of such differences. In Germany, workers are guaranteed by law a representation of 50 per cent on the executive boards of the coal and steel enterprises. Moreover, the entire labor movement is largely centralized in one organization, the Deutscher Gewerkschaft Bund, and the tradition of German labor organization has been marked primarily by cooperation and negotiation, with little emphasis being placed on the use of the strike. In France, on the other hand, labor is divided into numerous competing unions affiliated with political parties; the workers are used much more as instruments of politics and the strike is frequent.

[34] This tendency has been most evident in Belgium, where there is a great aversion on the part of the native population towards working in the coal pits. After the last war, wages had to be raised repeatedly to attract new miners, with the result that rates of pay in the Belgian fields were higher than those in other member countries when the common market opened. Moreover, the shortage of local labor has necessitated the recruitment of men from other countries, which in turn has led to a high rate of turnover and a general instability in the working force.

It is still too early to tell what effect the Community will have upon wage levels, but there are indications that the existence of the common market will produce considerable pressure on the part of high-wage producers to refuse additional pay increases until the disparities throughout the various member states are

TOTAL HOURLY WAGE COSTS IN COAL AND STEEL INDUSTRIES, 1953
(French francs)

	Coal	*Steel*
France	340.33	255.10
Germany	277.49	254.99
Belgium	297.78	282.03
Saar	350.32	261.33
Italy	281.82	228.51
Luxembourg	——	332.92

Source: See that of the preceding table.

evened out. It is also probable that the growing international labor cooperation that has been encouraged under the Plan will stimulate the poorly paid workers to demand increases from their employers. Moreover, to the extent that the High Authority is successful in increasing the mobility of labor throughout the common market, one of the causes of wage disparities will be reduced in importance. On the other hand, there are several forces at work which will tend to preserve the wage differentials. Rates of pay must still be related to the national wage structure in such a way as to maintain an adequate labor supply in the coal and steel industries.[35] Moreover, while producers will be interested in comparative cash expenses, labor unions in the high-wage countries are likely to refuse to allow real wages to fall below the levels prevailing in other member states, and since the variations in comparative real wages appear to be significantly less than the differences in money rates of pay, producers will be less likely to succeed entirely in overcoming their cost disadvantages.[36]

[35] The relationship of coal and steel wages to the national wage structure can easily be overestimated, however, if the customary drastic assumptions are made regarding the nature of the economic system. In practice, the immobility of labor, particularly evident in Europe, together with the ignorance of other job opportunities, will provide a wide range in which rates of pay in particular occupations may vary with relation to the rest of the economy without producing the threat of a serious diminution of the working force in these industries.

[36] The High Authority has long been engaged in an effort to compare real wages

4. TAXATION. The existence of differing national fiscal systems has injected still another artificial element into competitive conditions, for producers throughout the Community are burdened with a complex variety of taxes that differ significantly in form and amount from one country to another. Considerable progress, however, has been made towards eliminating these disparities, particularly in the field of sales or transfer taxes. The efforts of the High Authority, however, gave rise to sharp differences of opinion among the member governments. The Germans, whose sales tax is much lower than that of France, contended vigorously that the producer should be taxed according to the local laws regardless of whether he sold in the domestic market or in another member state. The French, on the other hand, favored a system whereby the transfer taxes to be paid would be those of the country in which the products were sold. After considerable study, a special commission appointed by the High Authority decided that the French view should prevail in order that producers competing in any given market should be burdened equally.[37] Since variations in transfer taxes are unrelated to differences in economic efficiency, the decision of the Commission represents a step towards the achievement of a common market as it has been defined earlier in the discussion. Nevertheless, it is quite clear that serious problems still remain. The decision of the Commission has no effect upon direct taxes, charges affecting the production and sale of raw materials, and similar duties, and it was largely because such charges were greater in Germany than in France that German producers were so anxious to take full advantage of their lower

throughout the common market but has been hindered in its task by obvious technical difficulties involved in making accurate and meaningful measurements. Most observers believe, however, that the differences in real wages within each country will exceed the variations from one state to another in the majority of cases. See, e.g., *Le Monde,* February 20, 1955. In France, however, there has been much propaganda on the disadvantages of the French producers vis-à-vis their German competitors in regard to wage levels, and the figures generally given present much greater disparities than do those of the High Authority and other non-French sources. On the other hand, estimates made by *Libérateur,* March 13, 1955, declare that the investigations of the Authority will show that real wages are approximately 4 per cent lower in France than in Germany.

[37] This controversy is recounted in detail by Mendershausen, H., "First Tests of the Schuman Plan," *Review of Economics and Statistics,* November 1953, pp. 278 et seq.

transfer duties.[38] The problems involved in equalizing all of these taxes, however, are probably too complex to be solved by the High Authority, nor is there sufficient power under the Treaty to undertake such a step. Thus, the initiative presumably rests with the member governments to search either jointly or individually for a removal of at least the most obvious disparities.

5. INTEREST RATES. A final competitive inequality lies in the differing rates of interest throughout the Community. National restrictions on capital exports and the general shrinking of the international money market have intensified these differences so that firms in Holland can secure long-term loans for as little as 4½ per cent, while producers in other areas have only been able to obtain credit at rates exceeding 8 or 9 per cent.[39] During the past year, however, these inequalities have been considerably reduced. In the fall of 1954, twenty-six steel firms, representing 80 per cent of the French steel capacity, resorted to collective financing to improve their credit position. The project proved to be a great success; 20 billion francs were subscribed at 5½ per cent, a rate which perhaps reflected a growing confidence in the French franc but represented in any case a substantial reduction from the interest levels that have prevailed since the war. The Community itself has played a role in reducing these disparities, for the Authority has succeeded in obtaining a loan of 100 million dollars from the United States government, and has begun to secure additional loans from other countries where capital is abundant and cheap.[40] Moreover, both the governments and the

[38] Mendershausen (*ibid.*, p. 282) reports that German producers have compiled statistics showing that German steel carries a total tax burden (exclusive of sales taxes) of 33 per cent of the sales price (53.5 per cent of cost of production) while comparable figures for France are 23.6 per cent and 32.4 per cent.

[39] See High Authority, *Exposé sur la Situation de la Communauté*, January 10, 1953, p. 145; Common Assembly, *Rapport de la Commission des Investissements*, Luxembourg, 1954, Doc. No. 15, p. 37; and Jeune, A. L., "Le Marché des Capitaux et la Politique de la C.E.C.A.," *Banque*, June 1954, pp. 258 et seq. The last-named article goes on to state that investments of 344 billion francs made by the French coal industry after the war were burdened with a total of interest and service charges amounting to 13 per cent per annum. These figures compare most unfavorably with those in England, where long-term loans are obtained at 4½ per cent, and in the United States, where levels of 3 to 4 per cent prevail.

[40] A letter to the author from the High Authority dated September 7, 1955, reveals that 16 million dollars in loans have recently been secured from Belgium (4 million), Luxembourg (½ million), and Germany (11½ million). The rates of

High Authority have granted or guaranteed credits at low rates of interest to producers in the high-rate countries,[41] and there is some evidence that the Authority's loans have succeeded at times in having a favorable effect upon local capital markets. In Germany, for example, the competition created by the Authority's loans has occasionally helped to drive down prevailing interest rates. Still more important, the loans have been distributed through local banks so as to increase the reserves of these institutions and thus permit them to make greater supplies of capital available at lower rates of interest.[42]

Although the differences in the interest rate may greatly diminish within a short time, the variations in the debt burdens will probably remain for a number of years to come. The extent of these inequalities is clearly revealed by a comparison between the interest charges carried by the French and German producers. Under the stimulus of the Monnet Plan, some 358 billion French francs were invested from June of 1948 through December 31, 1952, a period when interest rates were relatively high. In Germany, on the other hand, nine-tenths of the producers' debts were wiped out by the currency reforms of 1948 and much investment was financed with Marshall Plan aid, on which no interest was charged until 1953. As a result, Professor Chardonnet, writing at the end of 1953, estimated that each ton of French steel was burdened with 1,000 to 1,500 francs in interest charges while the cost in Germany varied between 100 and 200 francs.[43] Despite the fall in French interest rates, there is slight hope that this disadvantage will be overcome within the next few years, for higher profit margins enable the Germans to autofinance two-thirds of

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interest vary from 3½ to 4 per cent and will be distributed to workers' housing projects at the same rates, plus a service charge of approximately ¼ per cent.

41 The Authority has agreed only to contribute 20 to 30 per cent of the funds needed to cover the costs of the investment projects that have been approved for assistance. See High Authority, *Third General Report,* April 10, 1955, pp. 132-138.

42 See *Paris-Presse,* February 17, 1955.

43 Chardonnet, *op.cit.,* pp. 113 and 209-210. Much the same is true of the coal industry. French officials declare that interest charges on each ton of French coal were 175 francs in 1952 and 278 in 1953 as compared with 35 francs in Germany. See "Avis et Rapports du Conseil Économique," *Journal Officiel de la République Française,* Paris, April 2, 1954, p. 353.

their investments whereas the French must still rely primarily on outside sources of credit.[44]

C. *Introducing Competition—The Problem of Steel*

1. THE EXPORT CARTEL. The efforts of the High Authority to establish competition in the steel industry have met with considerable difficulty, both in commerce within the Community and in sales to third countries. Soon after the common market opened, a cartel was established in Brussels to fix prices on steel exported from the Community to foreign markets. Despite the disapproval of the High Authority, no action was taken to suppress the organization, for the powers of the Authority in this field are somewhat ambiguously worded in the Treaty, and the Consultative Committee as well as the Council of Ministers favored the continuation of a cartel.[45] Nevertheless, officials in Luxembourg have not been unduly worried over this problem, for the effectiveness of the Brussels agency promises to be very limited.[46] Experience

[44] Rates of autofinancing in German coal have been estimated at 60 per cent. See *Les Echos,* March 29, 1955. The *Financial Times* (London) survey, "Industrial Germany," September 13, 1954, p. 5, reports that 3 million marks were invested between 1948 and 1953, of which 1.7 million were provided by autofinancing. The rates in steel probably have been still higher, particularly after the price rises of 20 per cent that were carried out in 1952.

The rate of autofinancing in French steel has been reported as 33.1 per cent from 1946 to 1953. See Chardonnet, *op.cit.,* pp. 209-210. By a law of November 1947, it was proclaimed that the steel industry should have a margin of 12 per cent of the sales price to be used for investment purposes. In the efforts by Pinay and others to hold down prices, however, this margin was not respected; as a result, 3.5 billion francs was collected in 1950 instead of 13.7 billion, and only 8.8 instead of 15.9 billion in 1951. See *ibid.,* pp. 121-123.

[45] The history of the Brussels agency and reaction of the High Authority are recounted and analyzed by Rieben, H., *Des Ententes de Maîtres de Forges au Plan Schuman,* Lausanne, 1954, pp. 473-479. See, also, Driscoll, *op.cit.,* pp. 105-106.

Mendershausen, *op.cit.,* p. 284, suggests that the provision in the Treaty permitting alignment on foreign prices (Article 60) can be construed as an implicit authorization for participation in an international cartel on the world market.

[46] One problem raised by the export cartel, however, was the complaint of Denmark to the officials of the General Agreement on Tariffs and Trade that inequitable prices were being charged by the Brussels agency. (Prices must be "equitable" in order to satisfy the terms of the Community's waiver from the General Agreement.) See *The Economist* (London), February 12, 1955. Investigations on the actual prices charged carried out by the High Authority revealed that the Danish complaint was not well founded, and the Danes later withdrew their objections subject to the right to renew them at a later date. For a confirmation of the findings of the High Authority, see Economic Commission for Europe, *The European Steel Market in 1954,* Geneva, March 1955, p. 29.

The controversy revealed a division of opinion on the meaning of "equitable"

under past cartels suggests that the success of such organizations requires a single selling agency together with the power to fix production quotas.[47] Since these practices would be quickly suppressed by the Authority, the cartel must get along without them and thus is likely to prove ineffective under the pressures produced by a falling market. These weaknesses were apparent in 1953 during the recession of the steel market, for the desire of the producers to maintain their volume of sales resulted in a widespread disregard of the price levels set by the cartel.[48] With the recovery of the steel market in 1954, the organization has enjoyed greater success, but it has used its influence primarily to discourage producers from raising their prices too rapidly and thus has helped to prevent an outburst of speculative buying and selling. While there are several reasons that help to explain this policy, not the least of them is the fear that the Authority will take action under Article 61, which permits the imposition of ceilings if export prices become "inequitable." On the strength of this provision, the Authority has issued a private warning that it will not stand idly by if export prices become excessive, and officials of the cartel have replied that they will never give the Authority cause to act upon these grounds. In the light of past experience, therefore, it seems quite likely that the export cartel will break down when the market falls and succeed only in times of rising or stable demand when it is least needed by the producers and least liable to produce ill effects.

2. PRICING WITHIN THE COMMUNITY. Within the common market itself, attempts to foster a fair but active competition have likewise encountered serious obstacles for reasons closely linked to the structure of the steel industry. Of fundamental importance is the fact that the general demand for steel is inelastic, reacting very little in the short run to changes in price. As a result, an

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prices; the Authority claimed that the export prices of the Community should be compared with world prices, while the Danes contended that export prices were inequitable if they were above the levels prevailing within the common market. This problem has perhaps not been resolved definitely, but the High Authority has shown no signs of departing from its interpretation.

[47] Cf. Rieben, *op.cit.*, p. 230, and Stocking, G. W., and Watkins, M. W., *Cartels in Action*, New York, 1946, pp. 185-186.

[48] See, e.g., Evely, R., "Les Cartels et la Communauté Européenne du Charbon et de l'Acier," *Cartel*, July 1954, pp. 87 et seq.

individual firm cannot profitably reduce its prices if its competitors will quickly follow suit, for if all producers lower their offers uniformly, the resulting loss of revenue will more than offset any increase in sales. Thus, a steel firm will be particularly unwilling to cut its prices, for there are so few producers serving any given market that the reductions can be quickly ascertained and matched by competitors. The incentive not to reduce prices is strengthened still further by two principles prescribed in the Treaty, the prohibition against discriminatory pricing and the obligation to publish price changes in advance. For if each producer must reduce his prices uniformly and must publish these reductions in advance, his chances of undercutting his competitors are reduced almost to the vanishing point. Thus, if the firms choose to adhere to these principles, they will probably adjust their published schedules to conform with those of their competitors, and the resulting price will tend to be above the purely competitive figure and will be much less responsive to changes in the market.

In stable or rising market conditions, firms may well be content to abide by the requirements of the Treaty and hence to refrain from trying to undercut competitors. If the demand for steel is falling, however, they are likely to react in quite a different way. A falling market places great pressure on the steel producer to maintain his volume of sales, so that he can keep his plant in operation and absorb the high fixed costs incurred through the installation of expensive equipment and machinery.[49] But since the demand

[49] According to the Economic Commission for Europe, the minimum capacities for the efficient production of steel are 1,300,000 tons of crude steel per year for plants producing flat products with a continuous wide strip mill, 500,000 tons per year for a plant producing light sections, and 600,000 tons for a plant producing heavy sections. The cost of an enterprise capable of turning out 1 million tons of crude steel per year has been estimated at 200 to 300 million dollars in Europe. *European Steel Trends in the Setting of the World Market,* Geneva, 1942, pp. 61 and 72.

The expense of plant and equipment is such that a very high percentage of capacity must normally be used in order for a firm to break even at current prices. Thus, the producer is particularly dependent upon a stable volume of demand in planning his long-term investments. At the same time, however, he is particularly susceptible to market fluctuations since variations in the demand for consumer goods are likely to result in larger fluctuations in the market for investment goods. Inasmuch as a very large portion of steel output is devoted to the construction of investment goods, steel men are also likely to face aggravated shifts in demand.

The confrontation of a sharply fluctuating market with the need for a stable

for steel is inelastic, the producer cannot keep up his sales by merely lowering his prices; he must increase his share of the falling market, and this he can do only by successfully undercutting his competitors. As a result, he will be greatly tempted to grant secret and discriminatory rebates, for price cuts of this nature not only are less easily found out by competitors but also will enable the firm to attract new business with the least possible loss of revenue, by adjusting the rebate to the bargaining power of each customer.

The tendencies just described have been very much in evidence throughout the Community. As the common market opened, the High Authority established regulations requiring all firms to adhere exactly to the figures quoted in their published schedules and to alter these schedules with every change in price.[50] In accordance with these rules, the steel firms submitted price lists which varied little throughout the common market. This uniformity, however, was not entirely unexpected, for prices had not previously been determined by competition and producers were naturally unwilling to quote a figure arbitrarily without at least some consultation with competitors. During the next few months, however, although the demand for steel dwindled steadily, producers did not change their schedules but adapted to the falling market by giving clandestine and discriminatory rebates of as much as 20 per cent for some products. After considerable study, the High Authority responded to this widespread disregard of the regulations by altering the requirements for publication to permit producers to vary their prices to the extent of 2½ per cent above or below the published figures.[51] Several reasons may be

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demand has generally been the underlying factor determining commercial tactics in the steel industry. The desire to maintain existing levels of output has occasionally led to vicious price cutting, but producers have eventually recognized that such competition benefits no one during a sustained recession and that cartels, with their concerted efforts to coordinate price and output, provide a surer method to achieve a more stable market. This general theme has been developed in great historical and analytical detail by Rieben, *op.cit.*, pp. 18-308.

[50] Decisions 30-53 and 31-53, *Journal Officiel de la Communauté Européenne du Charbon et de l'Acier* (henceforth cited as *Journal Officiel*), May 4, 1953, pp. 109-112. Changes in the published schedules were to be made five days before the new prices became effective, and no provision was made for enforcement measures on the part of the Authority.

[51] Decisions 1-54, 2-54, and 3-54, *Journal Officiel,* January 13, 1954, pp. 217-220.

advanced to explain the course of action pursued by the Authority. The officials in Luxembourg may have been influenced by the arguments of the steel producers, who insisted that if each successive price cut were published, market fluctuations would be intensified by buyers holding back their orders in anticipation of further reductions.[52] Moreover, since secret price cuts were universally practiced and extremely difficult to detect, the Authority may have hoped that the new regulations would provide sufficient latitude to guarantee the voluntary acceptance of a majority of producers. In this way, effective enforcement could become possible, thus putting an end to the gross discriminations that were in current use. It is also possible that the regulations were designed with an eye towards stimulating price competition under stable conditions, for if minor reductions could be carried out without prior publication, producers would be encouraged to attempt to undercut their competitors, and as the rebates became more widely known, prices might be lowered generally in response to the demands of the consumer. It is significant to note, however, that none of these objectives would be likely to be achieved unless discrimination took place within the 2½ per cent limits, for if a producer had to lower his prices uniformly, his reductions would be too easily known, despite the lack of publication, and buyers would still hold back their orders while competitors would quickly adjust their prices to avoid being undersold.[53] Thus, the new

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The new regulations also reduced from five days to a single day the time required before newly published schedules could be put into effect. Moreover, the Authority announced its intention to conduct "spot checks" throughout the industry in order to insure compliance with the new rules.

[52] This point has been emphasized by the Authority itself in its *Rapport Mensuel,* October 1953, p. III, 23, and has been widely stressed in discussions of the price problem. See, e.g., Evely, *op.cit.,* pp. 87 et seq.

Speculative buying and selling has long been a disturbing factor on the continental steel market, and the recession of 1953 itself was interpreted not as arising from general economic conditions but as a widespread de-stocking movement among consumers. See High Authority, *Third General Report,* April 10, 1955, p. 56. In part, this problem was caused both within and outside the Community by heavy buying prior to the common market resulting from uncertainty as to the effect of the Plan upon prices. Thus, Rieben reports that certain firms in Switzerland were buying up to a two years' supply of steel. *op.cit.,* p. 476.

[53] The High Authority later argued before the Court that uniform price changes were easily and quickly ascertainable by consumers and competing producers. See résumé of the Authority's arguments in *Journal Officiel,* January

requirements appeared to be an attempt to minimize the harmful effects of strict publication rules without permitting discriminatory practices to go beyond rather narrow limits.[54] Since fluctuations in the European steel market are often large and fairly rapid, it is quite possible that the 2½ per cent margins would not have proved sufficient to relieve the producer of the disagreeable necessity of making frequent downward adjustments in his published schedules. In any event, the judgment of the Authority was never subjected to a real test, for the demand for steel rose steadily throughout 1954,[55] and producers were therefore free from the pressures of a falling market with little incentive to attempt to undercut their competitors.

Within a short time after the announcement of the new requirements, protests were filed with the High Court by the French and Italian governments, and in December of 1954 a decision was handed down declaring that the Authority had exceeded its powers under the Treaty.[56] It is likely that the decision of the Court was correct in the result that it reached. The opinion itself, however, was marked by reasoning of a formalistic and rather questionable nature, thus giving rise to the suspicion that the Court may not display the same flexibility and concern with economic phenomena that have played such an important role in the evolution of antitrust law in the United States.[57] In any case, the High Authority

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11, 1955, pp. 549-550. See, also, High Authority, *Rapport Mensuel,* January 1954, p. III, 37.

[54] It must be noted, however, that the regulations expressly prohibited firms from discriminating in "comparable transactions." While such a declaration appears necessary in view of the nondiscrimination requirements of the Treaty (Article 4, Section b; Article 60, Section 1), it is not easy to understand how the rules could bring greater stability in a falling market or increasing flexibility under stable conditions unless discrimination could occur within the 2½ per cent limits. Moreover, the High Authority itself stated that the principal reason underlying the regulations was to provide for increasing "suppleness" in the rules of publication so as to permit producers to adjust to day-to-day variations in the market and to the "necessities of business negotiation." *Journal Officiel,* January 11, 1955, p. 222. But whereas precise daily fluctuations may take place on the stock exchange, the same would not seem true of the steel market, and the phrase "necessities of business negotiation" suggests that what was meant was a process of bargaining whereby prices would be adapted according to the buying power of each customer.

[55] See figures listed in High Authority, *Informations Statistiques,* November-December 1954, pp. 37-38.

[56] *Journal Officiel,* January 11, 1955, pp. 547 et seq.

[57] The decision may be criticized on a number of grounds. In the first place,

was forced by the decision to return to its original position of demanding that each price change be preceded by an alteration in the published schedules, and prices since that time have tended to be more uniform and less responsive to changes in the market.

3. PRICE TRENDS IN THE FUTURE. At the present time, therefore, there is little active price competition within the Community and so long as the market is not falling, the prospects for improvement in the future are not encouraging. Since competition is clearly an objective of the Community, the existence of price parallelism may appear at first as a serious setback to the success

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the Court accepted the argument of the High Authority that no discrimination would take place within the 2½ per cent limits, making no attempt to determine the economic objectives of the regulations and their consequent relationship to discriminatory practices. Assuming the absence of discrimination, however, the reasoning of the Judges may be further questioned. The Court assumed *without explanation* that the ends of publication were *inter alia* to allow buyers to align their prices with those of their competitors as permitted by Article 60 and to enable consumers to compare prices. Not only were these "objectives" but they were obligatory ends to which the rules of publication must be adapted; hence, since the Treaty could not be construed as leaving the determination of prices by consumers and competitors to "more or less fortuitous means," Article 60 must be construed as compelling the steel producers to adhere exactly to their published schedules. Space does not permit a detailed criticism of this reasoning, but a careful reading of the Treaty should suffice to reveal that the so-called "rights" of alignment and consumer choice are no more than doubtful implications drawn from Article 4, Section b, and Article 60, Section 2. Moreover, the language of Article 60 permitting the Authority to determine "the extent and form" of publication could easily have been construed to sustain the new regulations. This latter construction had been urged on the Court by the impartial Advocate General, who interpreted Article 60 as giving the Authority discretion to develop rules which would harmonize the conflicting tendencies of publication to (1) aid in the elimination of discrimination and help the buyer in selecting prices, but at the same time (2) encourage rigid and parallel pricing. The argument of the Advocate General thus sought to resolve the ambiguous language of the Treaty into a workable whole through a consideration of the practical economic problems involved. The opinion of the Court, on the other hand, showed no such concern with economics and merely selected one of several possible interpretations without discussion.

In evaluating the Court's opinion, however, it must be remembered that the Judges of the Community come from a school of jurisprudence where formalistic opinions often belie reasoning of a much more fundamental and profound nature. Thus, it is possible that the Judges paid attention to the economic problems involved and were aware of the likelihood of discrimination and unimpressed by the efficacy of 2½ per cent margins. Granting this assumption, the opinion is still open to question, for formalistic reasoning in a written opinion does not give adequate guidance to business firms or to the Authority in planning future action and also prevents the constructive criticism that both checks hasty and ill-considered economic analysis and opens the way to a more comprehensive understanding of the problems involved.

of the Plan. The immediate economic disadvantages of such practices, however, occur only to the extent that prices rise above the competitive level, and there are several forces at work in the common market which may keep price levels from rising very far above those that would prevail under active competition. In the long run, the prohibitions against geographical and other price discriminations may play a helpful role, for they limit the ability of producers to exclude new enterprises and thus hinder the firms from making profits so extravagant as to attract new competitors to the industry. Of more immediate importance, however, is the ever-present possibility of a maximum price imposed by the High Authority, for steel men are well aware of the fact that ceilings have already been placed upon coal fields where no effective competition prevails between the mines.[58] Officials of the Authority are also of the opinion that individual firms often hesitate to raise their prices above the general level because of the notoriety that follows from the obligation to publish schedules.[59] The effects of maximum pricing and publication received their first test during the steel boom of 1954 and the results were definitely encouraging, for most observers agreed that the really striking aspect of the boom was the refusal on the part of producers to raise their prices to the limit. During the course of that year, moreover, an added deterrent was revealed which may prove to be the most effective of all. In informal communications with steel plants, the French government threatened to reduce the amount of official loans if producers did not cooperate in keeping down the price of steel. The effects of this policy extended well beyond the French frontiers, for producers in other countries hesitated in turn to raise their prices for fear of being undersold.

The changing structure of the industry may also have an influence upon the cost of steel, for prices are more likely to rise above competitive levels as the degree of concentration in the production of steel is increased. The creation of vast combines on the dimensions of the United States Steel Corporation would encourage price leadership and enable the major producers to set

[58] See footnote 63 infra.

[59] This tendency is confirmed by the Economic Commission for Europe, *The European Steel Market in 1954,* Geneva, June 1954, p. 51.

higher prices with less fear of independent price policies on the part of their competitors. Moreover, an industry concentrated into such large units would lessen the incentive for new firms to enter the field, since huge capital outlays would be necessary to construct a plant large enough to match the economies of scale achieved by existing producers. As yet, however, the degree of concentration in the Community has not reached serious proportions, for with the large prewar German combines still largely broken up after the decartellization laws, no enterprise within the common market accounts for more than 6 per cent of the total production. Thus, while the High Authority has been free to approve concentrations, it is probable that all of them can be justified by increasing efficiency in production or distribution unaccompanied by a dangerous concentration of market power.[60]

Despite the absence of heavy concentration, together with the various other deterrents to monopoly pricing, the machinery for collusive price and production policies is certainly present within the Community. Both the trade associations, fortified by long experience in business cooperation, and the export agency provide a forum where producers can agree tacitly upon commercial strategy, without resorting to the complicated mechanisms of a cartel that would be swiftly detected by the High Authority.[61] A commercial policy of this nature would create considerable difficulty, for there are no tangible traces to be suppressed by an

[60] Interviews by the author with officials of the High Authority reveal that emphasis is placed primarily on two factors in determining the validity of concentrations. The first is the percentage of total Community output of the product in question which is controlled by the concentration. The second is the percentage of market control that the new group enjoys in special (presumably, geographically protected or special product) markets. Six per cent of total production and 12 per cent of special markets are considered dangerous by the Authority. These figures are dwarfed by the position occupied by the United States Steel Corporation, which in 1945 controlled 33.8 per cent of the total crude steel output in the United States.

[61] For an account of the prewar steel associations in France and Germany, see Rieben, *op.cit.*, pp. 103-145; *Le Monde des Affaires de 1830 à Nos Jours,* Paris, 1952, pp. 80-130; and Pounds, *op.cit.*, Chapter 5.

An interesting account of the efforts of the French trade associations to block passage of the Schuman Plan is found in Ehrmann, H. W., "The French Trade Associations and the Ratification of the Schuman Plan," *World Politics,* July 1954, pp. 453 et seq. For an unfavorable account of the role played by trade associations in the United States together with many citations on the problem, see Stocking and Watkins, *Monopoly and Free Enterprise,* New York, 1950, Chapter 8.

agency like the High Authority. Nevertheless, the importance of these groups should not be overestimated. Although "gentlemen's agreements" have succeeded in certain cases within the United States, the prevailing level of business ethics in Europe and the existence of so many independent enterprises scattered throughout six different countries greatly enhance the likelihood that individual firms will fail to conform to the collusive price levels, thus causing the entire scheme to evaporate.

While the price policies of the various firms cannot be foretold with any precision, one fact stands out quite clearly. The structure of the steel industry and the existence of publication and nondiscrimination requirements will almost certainly cause prices to be much less flexible than they would be under active competition, particularly if the Authority is successful in preventing discriminatory rebates when the market is falling. Since 80 per cent of the Community's steel is consumed within the member states, it is also possible that stability in the common market will diminish the incentive to vary prices in sales to third countries. While the economic advantages of such inflexibility may be debated, it is at least very likely that certain benefits will result. Fluctuations in European prices have tended in the past both to introduce greater uncertainty in the affairs of steel-consuming industries and to encourage speculative buying which aggravates the fluctuations still further. Moreover, the unpredictability of these price levels has probably given an added stimulus in many underdeveloped countries to implementation of plans for constructing domestic steel plants.[62] Thus, price fluctuations seem to have worked to the disadvantage of the steel producers, and greater stability will therefore favor them, particularly if it is carried over into the overseas market.

D. Introducing Competition—The Problem of Coal

1. THE NATIONAL ORGANIZATIONS. Attempts to establish competition in the coal industry have centered around the problem of the large national selling organizations that exist in certain of

[62] This theme is elaborated in much greater detail by the Economic Commission for Europe, *European Steel Exports and Steel Demand in Non-European Countries,* Geneva, 1953. See, also, ECE, *European Steel Trends in the Setting of the World Market,* Geneva, 1949, p. 65.

the member states and prevent effective competition between the mines within their jurisdiction. By far the most important of these agencies is the Gemeinschaft Organization, "Georg," which controls the sales of Ruhr coal. In the course of the Allied decartellization program, six separate agencies were established in the Ruhr in place of the single body that had served before the war, but it is generally admitted that no real competition exists between these agencies and that Georg sets the prices and allocates orders systematically among the mines. Since the Ruhr accounts for 80 per cent of the coking coal and 40 per cent of the total coal output in the Community, the power wielded by this agency is formidable. In Belgium, much the same activities are carried on by a national agency, Cobechar. The situation is somewhat different in France, however, for though the coal industry has been nationalized, the mines remain largely autonomous and are free to set prices as they choose. On the other hand, considerable power is held by the national import agency, Association Technique d'Importation Charbonnière (ATIC), which buys all of France's coal imports and then resells to French consumers at prices which are scaled downwards in certain cases by means of subsidies permitted by the High Authority.

The Authority has moved with great caution in approaching the problem of the coal organizations and has only taken preliminary steps to control their activities. Maximum prices were introduced with the opening of the common market, and although they have been removed from many fields, the High Authority has indicated that they will be maintained in the Ruhr until greater competition is introduced.[63] Moreover, the national import office in Luxem-

[63] Originally, maximum prices were imposed on all fields and were fixed at the levels that had prevailed before the opening of the common market. On March 20, 1954, the restrictions were lifted from all but the Ruhr and Nord fields, but it is likely that the preponderance of these two areas in the coal market was such that the other fields remained effectively within the control of the price policies determined by the High Authority. See High Authority, *Second General Report*, April 11, 1954, pp. 73-76. Early in 1955, controls were lifted from the Nord fields but were maintained without change in the Ruhr.

The continuation of these price limits has raised considerable protest and controversy throughout the Community. The governments have generally argued in favor of maintaining prices in the interests of domestic and industrial consumers. Coal enterprises, however, have contended that prices are too low and must rise in order to permit needed investment.

bourg has been ordered to close, and one may surmise that similar action will be taken against ATIC since it differs but slightly from the Luxembourg agency. As yet, however, the Authority has not devoted its full attention to ATIC and has been content merely to insist that all requests for imported coal by French consumers be quickly and automatically approved. The German agency, Georg, has been studied in great detail, but its status was still undetermined by the fall of 1955. The policy to be pursued by the Authority, however, was clearly enunciated in a speech by one of its members, Franz Etzel, in May of 1955. He declared that the activities of Georg should be reduced in order to give more effective control over the marketing of coal to Georg's six constituent agencies. These agencies would formulate their price and production policies in complete independence for all consumers ordering less than 50,000 tons a year. Larger orders, which are primarily those submitted by railways and utilities, would continue to be handled by a central agency, since such large quantities can be marketed more efficiently by a single body. The effect of such a program, therefore, would be to leave only a third of the Ruhr's production under the control of a central agency with the remainder being distributed by six competing units.[64]

The policy announced by Herr Etzel was originally suggested by Georg itself pursuant to the desire of the Authority that an attempt be made to solve the marketing problem by the voluntary agreement of the producers. By the fall of 1955, however, the mine owners had not yet assented to the plan, and the Authority had not committed itself to taking action in the absence of such approval. Moreover, even if the program is eventually introduced in the Ruhr, it is apparent that the tradition of organized marketing is so strong that much more than mere decrees will be needed if any real competition is to prevail between the six agencies. These bodies have long been nominally separate while resting in reality under the control of Georg. In order to make them truly independent, a vigorous policy of enforcement will have to be carried through to suppress the myriad of devices by which the policies of the agencies may in practice be coordinated. Still more

[64] See High Authority, *Bulletin from the European Community for Coal and Steel,* June 1955, pp. 7-8.

important, habits of methodical cooperation will have to be eliminated through a removal of the underlying market problems that long ago called them into operation.

2. THE DANGERS OF COMPETITION. In examining the course pursued by the Authority, it must be emphasized that the question of the coal organizations cannot be interpreted as being primarily a contest of power between the various interested groups. Instead, it has been based upon difficulties appreciated on all sides in determining the degree of competition that is desirable for the coal industry. There is little doubt but that a selling organization such as Georg permits the survival of a number of relatively inefficient installations which would probably close down under vigorous price competition. On the other hand, even the High Authority has admitted that serious difficulties would result from such competition.[65] The danger arises in large part from the housing shortage that exists in most of the Community's coal fields, for the scarcity of living accommodations complicates the transfer of workers from the marginal to the more efficient mines and thus intensifies the problems of unemployment that would attend the closing down of substandard enterprises.[66] This shortage, resulting in part from wartime destruction and in part from excessive building costs, is likely to endure for some years to come despite the efforts of the High Authority and the member governments. So long as the problem remains, serious risks will accompany the elimination of inefficient firms.

The disadvantages of vigorous competition become still more apparent when the fluctuating nature of the coal market is taken

[65] See, e.g., Common Assembly, *Rapport de la Commission des Affaires Sociales,* Doc. No. 18, 1953-1954, pp. 10-11. An ambitious proposal was advanced by socialist members of the General Assembly headed by Nederhorst of Holland. Admitting that the social and economic dislocation occasioned by price competition would be too severe, they urged that Georg and similar agencies be replaced by joint producer-labor-consumer groups. The High Authority politely side-stepped the suggestion. See *Le Monde,* December 2, 1954.

[66] See, e.g., "Coal Prices and Cartels," *The Economist* (London), March 27, 1954, p. 962. The German point of view is succinctly expressed in the following quotation from *Die Welt,* March 1, 1955 (translation by author): "According to the detailed calculation of the Unternehmensverband, the closing of the 12 mines which are registering the greatest losses would not improve the average price by more than .70 marks per ton. On the other hand, the closing down would deprive 27,000 workers of their jobs and would mean a diminution of 6 million tons per year or 5 per cent of the total [German] production."

into account. In a falling market, coal firms are motivated in much the same way as the steel firms, for coal executives are then anxious to maintain their volume of sales in order to absorb their high fixed costs. The incentive to maintain production is intensified still further by a problem peculiar to the coal industry. Mine owners are particularly unwilling to cut production through the release of workers, for since coal mining is regarded as an unpleasant occupation, the miners may leave permanently if they are laid off, and replacements will be both difficult to find and costly to train.[67] Further difficulties result from the fact that competition would lead to the closing down of certain firms which could readily survive under normal market conditions. The problems created go considerably beyond the existence of unemployment. In the first place, the pressure of competition will not necessarily fall most heavily on the more inefficient enterprises, for there are many older mines that have written off their fixed costs in prior years and thus are better able to withstand the falling prices. Moreover, in Europe the irregularity and narrowness of the coal seams greatly increase the time and expense that are needed to reopen a mine once it has been closed.[68] As a result, if firms have been eliminated in the course of a recession, when the market improves production cannot be increased with sufficient rapidity to avoid a shortage of coal and the consequent necessity of importing heavily

[67] A comparative survey of the administrative methods and the time required to train new miners can be found in Logelain, G., "Aperçu sur la Formation Professionnelle des Travailleurs des Mines de Houille de la Communauté Européenne du Charbon et de l'Acier," *Revue de Travail,* September 1954, pp. 963 et seq. Evidently, the time taken to train a miner varies from the five-week accelerated course in France to four months in Germany and six months in Belgium. At the same time, schools and training programs appear to be employed in all major fields and typically begin when the prospective miner is in his middle or early teens, continuing for several years thereafter.

[68] See, e.g., High Authority, "Memorandum sur la Politique Charbonnière" (mimeographed, unpublished), January 1955, p. 17; Duboscq, J., *Le Conflit Contemporain des Houillères Européennes,* Paris, 1936, p. 15; and G. Mathieu in *Le Monde,* March 12, 1954. The structure of the coal seams has been set forth and compared with conditions in the United States by the Economic Commission for Europe, *European Steel Trends in the Setting of the World Market,* Geneva, 1949, p. 51. The following quotation summarizes the problem: "The seams [in the United States] are easier to work on account of their thickness and regularity and they lend themselves better to mechanisation both in cutting and in underground transport. . . . The European seams, less thick and less regular, do not permit the intensive use of that technique."

from abroad. Since the bulk of those needs must be covered by shipments from the United States, valuable dollar supplies must be used, and the total cost is increased still further by the tendency of transoceanic shipping rates to rise quite sharply in times of high demand. The burden created by these imports was illustrated most clearly after the outbreak of the Korean war, for an oversupply of coal gave way with great rapidity to an acute shortage with the result that 28 million tons had to be imported from the United States at a cost of 600 million dollars.[69] In the face of such costs, none of the member governments can be expected to look with favor on any economic system which threatens to make their mines still slower to adjust to sudden rises in demand.

The potential disadvantages of vigorous competition have been enhanced in the minds of many European businessmen and administrators by the experience of the coal industry between the two World Wars. Although the coal market was in a state of stagnation in all European countries, there was a marked difference between the fortunes of the industry in England, where competitive conditions prevailed, and those in Germany, where a program of coordination and control was practiced. Competition in England helped to maintain the excessive fragmentation of the industry, intensified the problem of the businessman in finding sufficient funds to invest, and led eventually to the imposition of quotas and controls by the government. In Germany, on the other hand, competition had long since given way to a cartel, and under a law of 1919 the entire industry was placed under the control of joint owner-labor-consumer groups with ultimate power lying with the Minister of Industry. In contrast to Great Britain, the German industry was able to invest considerable sums, regroup into more efficient units, and stabilize output and prices to a considerable extent.[70]

3. IS COMPETITION POSSIBLE? It is probably a mistake to draw too heavily from the interwar experience in evaluating the advan-

[69] See Economic Commission for Europe, *The Relationship between Coal and Black Oils in the West European Fuel Market,* Geneva, 1954, p. 55.

[70] Comparisons of the interwar experience in England and that in Germany can be found in Duboscq, *op.cit.*, pp. 106-138, and Svennilson, I., *Growth and Stagnation in the European Economy,* Economic Commission for Europe, Geneva, 1954, pp. 108-111.

tages and disadvantages of competition in the coal industry, for the entire period was marked by depressed conditions which under stiff competition tended to drive down prices, intensify the desire of the individual mines to produce more coal, and prevent sufficient investment from taking place. Today, however, there is little prospect of a serious depression, and even if such a disaster should occur, the power of the Authority to set production quotas and minimum prices could eliminate the worst effects of sharp competition. Moreover, there has been no sign of the chronic overcapacity which plagued the mines between the wars, for most of the recent surveys predict a growing demand for coal over the next decade.[71] The High Authority has also announced that it favors keeping total capacity below the level needed to satisfy peak periods of demand, and with the more careful forecasts that are presently being made together with the powers to discourage unwise investments, the Community may succeed in avoiding any excessive expansion during the coming years. Still greater safeguards may eventually be exercised by the member governments if their representatives continue their present practice of meeting together with officials of the High Authority to discuss and coordinate national plans for development.[72]

Still remaining, however, is the problem of the short-run fluctuations which have occurred periodically in the past. So long as these disturbances remain, an argument can be made for the selling organizations, for in periods of falling demand, they serve at least to spread the burden over the entire industry. Thus, they prevent the closing down of less efficient mines and permit the supply of coal to be more rapid in adjusting to the eventual market revival. As a result, the suppression of the selling agencies may well require the development of techniques which will either

[71] The estimates of the High Authority call for an increase in coal consumption of 25 million tons in five years and 45 million tons in ten years. *Exposé sur la Situation de la Communauté,* January 10, 1953, pp. 116-118. The Economic Commission for Europe has estimated that on the lowest reasonable assumptions regarding the consumption of energy, the demand for coal will remain constant, and taking the highest reasonable assumptions, an increase of 25.7 per cent will be necessary over the next ten years. *The Relationship between Coal and Black Oils in the West European Fuel Market,* Geneva, 1954, p. 44. See, also, Organization for European Economic Cooperation, *Coal and European Economic Expansion,* Paris, 1952, where increases in consumption of 30 million tons by 1956 were estimated.

[72] See High Authority, *Third General Report,* April 10, 1955, pp. 129-130.

increase the flexibility of production or reduce the instability of demand. Mine owners already attempt to weather periodic recessions by building up much heavier stocks when the market declines. Nevertheless, this practice is limited by the fact that it is rather expensive and even wasteful for mines to carry excessive supplies.[73] Moreover, the beneficial effects of such stockpiling are counteracted to some extent by the speculative habits of consumers, who tend to vary the size of their stocks in such a way as to intensify market fluctuations. As a result, the suggestion has frequently been made that a subsidy be established to induce consumers to build up heavier stocks in time of declining demand and thus exert a stabilizing rather than a disruptive effect upon the market. The High Authority, however, has pronounced itself unable to assist with the financing of such a program,[74] and the burden will thus fall solely on the mines. Moreover, such a scheme will encounter the long-standing aversion on the part of the steel producers and will also be hindered by the lack of storage space of the majority of industrial consumers.[75] Another, more revolutionary plan has been put forward by the Coal Committee of the Economic Commission for Europe and is based upon the alternative use of coal and black oil. The process of refining can easily be varied to produce from 18 to 40 per cent black oil; thus, consumers equipped with dual firing installations could be supplied with either coal or oil depending on the state of the coal market, and the production of black oil would become a regulating force, shifting easily with changes in the market and so helping bring about a more stable demand for coal.[76] The Authority, however, has only gone so far as to announce that it will "look with favor" on any progress made along these lines, and has not committed itself as yet to any concrete financial assistance.[77]

[73] The most apparent dangers in heavy stocking include the risk of spontaneous combustion, the fact that great pressure injures certain types of coal, and the tendency of coking coal to lose some of its agglutinant properties when exposed for a long time to the open air. These are the factors mentioned in Duboscq, *op.cit.*, p. 19.

[74] See High Authority, "Memorandum sur la Politique Charbonnière" (mimeographed, unpublished), January 1955, p. 25.

[75] These are the obstacles set forth by the Economic Commission for Europe in "Coal Market Review" (mimeographed, unpublished), November 1954.

[76] See Economic Commission for Europe, *The Relationship between Coal and Black Oils in the West European Fuel Market,* Geneva, 1954, pp. 44-46.

[77] See High Authority, *Third General Report,* April 10, 1955, p. 122.

4. IS COMPETITION NECESSARY? In the absence of a determined program to stabilize the market, the dangers involved in introducing competition into the coal industry seem sufficiently great to justify a certain hesitation in dissolving the national selling agencies. In assessing the merits of this policy, it must be remembered that maximum prices combined with the requirements of publication have greatly diminished the ill effects of these organizations. Substantial pressure is also exerted on coal prices by the increasing competition from other sources of energy, and a further incentive to lower prices will result if the Authority is successful in persuading the member governments to reduce their restrictions on imports from third countries. On the other hand, in attempting to keep inefficient mines in operation, the sales agencies will inevitably attempt to set prices above the competitive level, a policy that might work to the disadvantage of the entire industry over the long run by stimulating the replacement of coal by other fuels. In this respect, the industry already faces a definite problem, for studies in comparative costs reveal that the competitive position of coal has been steadily deteriorating.[78] Moreover, though the annual consumption of coal has thus far failed to exceed the levels achieved in 1929, consumption of other forms of fuel has risen by 20 per cent.[79] Since the replacement of

[78] The following figures show the evolution of fuel costs from 1949 to 1953 (1949 = 100):

	Germany	*Belgium*	*France*	*Holland*	*Italy*
General wholesale price index	115	113	138	129	102
Coal	156	110	145	171	103
Fuel oil	—	—	126	142	76
Electricity	141	110	129	—	—

Source: High Authority, "Memorandum sur la Politique Charbonnière" (mimeographed, unpublished), January 1955, p. 8.

[79] Breaking these figures down to the individual member countries, one finds still more striking evidence of the changing composition of fuel consumption. In Germany, hard coal consumption in 1953 was 25 per cent above the 1929 level while other sources of energy had risen by 60 per cent. In the Netherlands, hard coal consumption rose by 22 per cent during the same period while other sources of energy tripled. In France and the Saar, coal consumption dropped by 20 per cent while other forms of energy increased threefold. In Belgium and Luxembourg, coal fell by 20 per cent, but other forms of fuel were used in a volume exceeding by eight times the levels prevailing in 1929. See High Authority, *Rapport sur la*

coal by other fuels is a gradual process, requiring the installation of new equipment by the consumer, there is some danger that the coal interests may underrate the gravity of the problem and thus intensify what has already become a serious threat to the industry.

Beyond the immediate problems of the coal mines and their price policies lies a more fundamental drawback arising from the continued existence of the sales organizations. In the face of the objectives of competition prescribed in the Treaty, the presence of these agencies represents an attack both upon the soundness of the Plan itself and upon the power of the Authority. During the early years of an experiment like the Schuman Plan, such setbacks assume a far greater importance than they would within a more firmly rooted institution. Hence, inaction on the part of the Authority may serve to inhibit the growth of the Community and to weaken the hand of its officials in trying to suppress restrictive practices elsewhere in the common market. As a result, considerable importance may be attached to the efforts of the Authority to facilitate labor movements and lessen the fluctuations in the coal market, thus permitting greater competition among the mines.

Situation de la Communauté, November 1954, pp. 108-109.

For a comprehensive report on the past and future trends in the competition between coal and black oils, see Economic Commission for Europe, *The Relationship between Coal and Black Oils in the West European Fuel Market,* Geneva, 1954.

IV. The Ultimate Effects of Competition

The problems of economic friction which have been mentioned in connection with the coal organizations would become still more formidable should particular regions prove to be so inefficient or so poorly endowed with markets and resources that they were forced to close down under active competition in favor of firms in another area or country. Unemployment and economic dislocation would result, creating political and social pressures which would work against the continuation of competition and against the very existence of the Community itself. As a result, the possibility of widespread shifts in production and the consequences that would occur thereafter bear directly on the development of the Community in the future.

A. The Social Costs of Competition

1. LABOR MOBILITY. Brief mention has already been made of the role of the housing shortage in intensifying the problems of transferring workers from marginal to more efficient mines. This "shortage" might be more accurately described as a crisis, for a large number of workers are forced at present either to live in huts and caves constructed from war debris or to stay in houses located far from their place of work. In a survey made in 1952, the Authority declared that nearly one-fifth of the workers of the Community lacked adequate accommodations and that at least 140,000 new units would be needed to satisfy the urgent needs.[1] The report went on to point out that an adequate housing program would demand a minimum of 50,000 to 60,000 lodgings per year at an annual cost of 250 million to 300 million dollars.

Labor mobility is further hampered by the unwillingness of most European workers to leave their native locality. The effects of this reluctance to move were strikingly apparent in the efforts to transplant some 5,000 French miners who were scheduled to be laid off in the process of modernizing Cevennes mines. As provided in the Treaty, the High Authority and the French government

[1] See High Authority, *Rapport sur l'application du Traité,* January 4, 1953, pp. 13 and 52. The most comprehensive treatment of the Community's housing problem is contained in the Common Assembly's *Rapport de la Commission des Affaires Sociales,* Doc. No. 6, 1953-1954, based on a week's tour through the major producing areas within the common market.

agreed in 1953 to share the expenses of moving and readapting the workers, and jobs were arranged for them in Lorraine. Despite this assistance, the resistance both of the workers and of the whole community was very stubborn. Under the leadership of local merchants, a "Regional Committee for the Defense of Industry" was established to persuade the miners to remain in Cevennes. Moreover, Communist labor leaders exploited the situation by insisting that the movement of workers to Lorraine was merely the first step in the "deportation" of French miners to the Ruhr. Still more important, real or imagined differences in dialect, climate, temperament, and social customs combined to discourage the workers from taking advantage of the new jobs that had been offered them. As a result, by the beginning of 1955 only 258 of the 5,000 had volunteered to leave, and even this meager number could not be transferred immediately because of the housing shortage in Lorraine.[2]

The attachment of the worker to his native region is a problem that can never be completely solved and can only be diminished through a sustained effort of skillful propaganda and by a more efficient program of recruitment and readaptation. On the other hand, the housing shortage can perhaps be eased more rapidly both by the actions of the High Authority and through increasing efforts on the part of housing officials in the member countries. Already, 1 million dollars has been allocated by the Community to help in the building of 1,000 experimental lodging units, and an additional 16 million dollars has been borrowed by the Authority to be distributed to housing projects.[3] Moreover, the German

[2] A most interesting field survey of the Cevennes problem was carried out by Albertini, "Problèmes Humains et Aménagement du Territoire," *Économie et Humanisme,* November-December 1954, pp. 18 et seq. Great stress is laid on the reluctance of the workers to leave for reasons quite apart from propaganda by Communist and commercial groups. A wide variety of reasons were brought forth by the author as a result of a series of interviews with the miners. Typical of such factors were the rough treatment suffered by Cevennes athletes at the hands of the Lorraine football team, a supposed unsociability of the people in Lorraine, and an attachment to the warmer climate of the Midi. The author also reports that it is quite possible that not all of the "volunteers" actually left of their own free will. As for those who remained, High Authority officials say that no aid has been given by the Authority and that the miners in the region have agreed to go on short time so that all may remain employed.

[3] Originally, 25 million dollars was to be allocated to housing out of the proceeds of the 100 million dollar loan secured from the United States. Exchange difficulties,

government has encouraged a remarkable program of reconstruction in the Ruhr with the result that 250,000 miners' houses had already been built or repaired by early 1953.[4] And even in France, where the inefficiency of the building industry is well known, increasing interest has been shown by the steel commission in agreeing that 10 per cent of projected investments be allocated to housing during the next few years.[5] In spite of these efforts, the shortage promises to remain serious for at least several years and together with the psychological obstacles already mentioned will aggravate the problem of unemployment that would result from the closing down of inefficient plants. As a result, the potential effects of competition are regarded with considerable apprehension by the member governments, which are all committed to full employment, and appear particularly unpleasant to countries such as France and Italy where a well-developed Communist party can be counted upon to maximize ill-feeling and unrest among the workers.

The problems of labor mobility become much more imposing in the event of shifts in production from one country to another. It used to be commonly thought that this problem was not of serious proportions, for it was assumed that the effects of a common market would be largely confined to shifts of workers and resources *within each country* so as to abandon marginal industries in order to concentrate on products which could be manufactured with relative efficiency. The decline of certain industries would thus be matched by the expansion of others so that a ready outlet would exist to absorb the displaced workers.[6] Passing over the reserva-

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however, prevented the money from being allocated for this purpose with the result that loans from Belgium, Luxembourg, and Germany were used instead. See Chapter III, footnote 40.

[4] See "Les Industries Charbonnières et le Marché Commun du Charbon," *Études et Documents du Centre de Recherches Économiques et Sociales,* January 1953.

[5] See Commissariat Générale au Plan, *Rapport Général de la Commission de Modernisation de la Sidérurgie,* Paris, June 1954. The excessive costs of building in France result in large part from a stagnation in the construction industry caused by the freezing of rents since the First World War.

[6] For a recent exposition of this point of view, see Wemelsfelder, J., "Some Problems Connected with the Establishment of a Common Market in Schuman Europe," *Economia Internazionale* (Genoa), August 1954, pp. 552-558. The author recognizes a few situations where migration might be necessary, but the practical problems of mobility within each country are totally ignored.

tions that may be advanced against this theory, it is apparent that in the Community, where only two products are subjected to a common market, other industries are not necessarily expanding as the production of coal or steel declines. Instead, it is likely to be the coal and steel firms in another country which are growing and which should ideally absorb the workers of the plants that have closed down. As a result, the problem of international mobility of labor becomes potentially important to the Community.

Many of the more tangible obstacles to the free movement of labor were foreseen in drafting the Treaty and have already been attacked by the High Authority. An international permit has been drawn up which can be obtained by workers performing certain skilled jobs in the coal and steel industry. Holders of these cards can seek employment in other member countries without being held up by the red tape which generally governs the immigration of labor. Efforts are also being made to enable these workers to enjoy all the social security benefits of the receiving country, thus preventing the discriminations that have frequently been practiced against aliens in the past. Furthermore, measures have been taken to improve coordination between the various employment organizations in the member states so that workers in one country may know more easily whether jobs are available elsewhere. While these measures represent a considerable step forward, certain reservations must be kept in mind in evaluating their significance. Under Article 69 of the Treaty, only workers of "recognized qualifications" may obtain the international permits, and though the High Authority and the Italian government strongly urged that a broad interpretation be given to this phrase, the pressures applied by other governments succeeded in restricting the term to certain classes of skilled personnel.[7] As a result, cards were given to only approximately 300,000 of the Community's 1,400,000 workers.[8] Moreover, though employers are obliged not to discriminate in the hiring of new workers, such a principle is not easy to enforce, and producers are likely to prefer to hire their own nationals if only to avoid the social tensions and the problems of language which

[7] See *Il Tempo,* October 28, 1954.

[8] The total number of workers employed within the Community averaged 1,377,300 in 1954. High Authority, *Third General Report,* April 10, 1955, p. 149.

might result from the employment of foreign labor. A still more fundamental reservation to the measures taken by the Authority arises from the fact that they do not strike at the root problem of international mobility—the reluctance of the worker to leave his community for a land where he must cope with a new language, different cultural and religious habits, and perhaps a certain degree of hostility on the part of his new neighbors.[9] This is an obstacle which lies largely beyond the reach of regulations and decrees and threatens to limit international labor movements to displaced workers who are driven to leave by a total inability to find any means of livelihood in their native region.[10] Should labor mobility be thus restricted, the unemployment and unrest that would attend the contraction of a producing area would be sufficiently drawn out and intensified as to pose serious political and social problems for the government involved.

2. TRADE BALANCES AND NATIONAL PSYCHOLOGY. In addition to the problems relating to international labor movements, an obstacle remains against which very little can be done under the existing framework of the Community. If the coal or steel plants of one country lose business or close down because of competition from firms in another country, the balance of payments in the first country will be worsened either by its having to import more coal and steel or by its losing export sales. In view of the important place occupied by coal and steel both in the gross national products of the member states and in their balances of payments, the loss of a substantial portion of either of these industries might have

[9] The literature on this problem is extensive, and therefore only a few lesser-known but interesting works have been included. See, particularly, Melnyk, M., *Les Ouvriers Étrangers en Belgique,* Louvain, 1951. Problems raised by this author include: (a) substandard lodging, particularly for foreigners ("une espèce de Ghetto relativement fort isolé"); (b) the requirement of several years' residence before becoming a citizen, giving rise to certain discriminations under the law; (c) no real provision made for the religious differences of the immigrants—e.g., no adequate church facilities; (d) hostility on the part of labor unions who fear competition for jobs; (e) race consciousness on the part of the native population. See, also, Pfeil, E., "Problèmes Sociologiques de l'Integration des Expulsés en Allemagne," *Études Européennes de Population,* Paris, 1954, pp. 357 et seq.; and Dawes, H., "Labour Mobility in the Steel Industry," *Economic Journal,* March 1934, pp. 84 et seq.

[10] This would seem to be more or less the situation that has prevailed in the past, for of the 181,184 aliens working within the Community in 1953, 71,761 were from Italy, 20,386 were from French North Africa, and 42,645 came from Poland. High Authority, *Documentation sur les Problèmes du Travail,* May 1954, p. 18.

serious repercussions on the international trade accounts.[11] In addition to the problem of trade balances, there are psychological forces at work, for the coal and steel industries are widely regarded as criteria of national strength and symbols of national power, and there is in consequence a natural aversion to the loss of business to another nation. These commercial and psychological barriers are particularly evident in France and Germany and are reflected in the strenuous efforts of the French to retain their economic ties with the Saar, where the entire economy is founded upon the production of coal and steel.[12] In the eyes of the French, the question of the Saar is primarily one of trade balances and power politics, for there are no imposing historical, cultural, or ethnic ties between the French and the Saarlanders. The importance of the trade balance finds its clearest expression in a letter written in 1950 by the French High Commissariat in which great stress was laid upon the fact that during 1949 the economic union had contributed a net amount of 50 billion francs to the French international trade account.[13] At the same time, there are frequent warnings in French periodicals emphasizing the dangers that might result should the Saar be united once more with Germany.[14]

[11] This observation, however, should be carefully qualified. If the maintenance of relatively inefficient plants results in higher domestic prices of coal or steel, the elimination of the marginal enterprises in favor of imports would lower the cost of these products to the many consuming industries with a possible favorable effect on the balance of payments sufficient to offset the cost of the imports. This offsetting tendency, however, would not necessarily exist if the inefficient domestic firms were kept in operation by means of government subsidies.

[12] A customs union provides for the elimination of all trade restrictions between France and the Saar, while an economic union includes a Saar mark that is tied to the French franc, application of French tax, wage, and fiscal systems, etc. For a detailed account, see Muller, R., *Le Rattachement Économique de la Sarre à la France,* Paris, 1950, pp. 123-206 and annexes.

[13] The letter is quoted in Muller, *op.cit.,* pp. 58-59.

[14] In addition to military and political factors, the purely economic dangers are voiced by Pierre Ricard (vice-president of the Chambre Syndicale de la Sidérurgie Française) as follows: "Si la Sarre se retire du côté français, pour s'ajouter du côté allemand, cela fait 11 million contre 18.5 millions [tons per year of steel], un peu moins de 60%. On peut lutter avec des chances égales quand on est à peu près à égalité, mais on ne peut pas quant on est à peu près un contre deux." See Rieben, H., *Des Ententes de Maîtres de Forges au Plan Schuman,* Lausanne, 1954, p. 383. It is also feared that if the Saar becomes German, the industrial strength of Germany will be so great as to give her a disproportionate voice in influencing the policies of the Coal and Steel Community.

Besides these motives, it is probable that the Saar is desired by the French as a market for farm produce coming from eastern France.

Thus, the reactions of the French, reflected in the insistence of the National Assembly that M. Mendès-France drive a hard bargain with Chancellor Adenauer as a condition of the Paris Accords, provide some indication of the pressures that would build up in nations threatened with the loss of a substantial part of their coal or steel industry.

B. The Likelihood of Economic Dislocation

Although the problems resulting from widespread reallocation of resources seem sufficiently great to endanger the continued existence of the Community, these pressures may never arise if in fact no really serious shifts in production would result from vigorous price competition. Some attempt must be made, therefore, to determine whether there are any large portions of the coal and steel industries in a member country which might find themselves at a permanent cost disadvantage in competing in the common market.

1. BELGIAN COAL. One of the most critical situations within the common market can be found in the Belgian coal fields. The mine owners of that country have been handicapped since the last war by high wages, problems in recruiting a stable working force, and difficulties encountered in working coal seams that are extremely narrow and irregular. Moreover, since 1914, the coal industry has been prevented from investing sufficiently as a result of a combination of government policy, economic stagnation, and war.[15] The advent of the common market, however, has already had

[15] During the First World War, the Belgians were occupied by Germany and mine owners had little incentive or opportunity to invest sufficiently. The coal industry was the victim after 1918 of a government policy of selling Belgian coal to France at very low prices to ensure an adequate supply of iron ore from Lorraine. As a result, investment had to be curtailed, and the mine owners received an additional incentive to overexploit the best seams. General economic stagnation throughout Europe during the Great Depression increased the pressure on the mines and further curtailed adequate investment. In the years immediately following the Second World War, the industry's prices were pegged by the government at a level less than cost, necessitating subsidies to keep the mines in operation. See, e.g., *Bulletin from the European Community for Coal and Steel,* December 1954, pp. 1 et seq.; Dehasse, L., "Problèmes de l'Industrie Charbonnière Belge," *Société Belge d'Études et d'Expansion,* May-July 1954, pp. 460 et seq.; and *Revue des Sciences Économiques,* December 1951, pp. 225 et seq.

As a result of geological conditions and overexploitation, Belgian mines are now the deepest in Europe and working conditions are often bad. The heat in some pits exceeds 90 degrees Fahrenheit despite the use of huge cooling machines.

a pronounced effect upon the problem. Mine owners have resisted all requests for wage increases since 1952; and they managed to stabilize the existing wage levels until the end of 1954, thus diminishing the cost disadvantage that had previously weighed heavily on all the firms.[16] Moreover, the subsidy program has undoubtedly encouraged investment, which has been unprecedentedly high in recent years. Despite these signs of progress, the position of the mines is not wholly favorable, for the average cost per ton of Belgian coal is still 80 to 150 Belgian francs above the levels that generally prevail in the Ruhr, and worker productivity has not risen with sufficient rapidity to diminish the cost advantages of the major competing fields (as shown in the following table).

LEVELS OF WORKER PRODUCTIVITY
(Kilograms per man-shift)

	1952	*1953*	*1954*	*Per Cent increase, 1952-1954*	*August 1, 1955*
Germany					
Ruhr	1,503	1,486	1,523	1.3	1,573
France					
Nord	1,228	1,277	1,349	9.9	1,469
Lorraine	2,018	2,088	2,214	9.7	2,122
Belgium					
South	957	979	1,011	5.6	1,022
Campine	1,295	1,289	1,352	4.4	1,493

Source: Figures taken from High Authority, *Third General Report,* April 10, 1955, p. 44. The rate of increase in Germany is unduly low, since the work shift was reduced from 8 to 7½ hours during this period.

The problem is most serious in the Borinage field, for a number of large enterprises have been losing money steadily, and threats by the owners to close down alarmed the entire country at the end of 1954. At the request of the Belgian government, a commission of experts was established by the High Authority to study

See *New York Times,* September 24, 1953. Moreover, the accidental death rate is high, having increased from 112 in 1947 to 188 in 1953 (*La Cité,* January 17, 1955), and the number of Belgian miners receiving accident payments increased from 12,190 to 22,733 from the end of 1944 to the end of 1953 (*Le Peuple,* January 27, 1955). See, also, Melnyk, *op.cit.* Belgian mines appear to be particularly deficient in surface installations and the handling of coal after cutting; new hoists, power plants, and coal-washing equipment are needed. See *New York Times,* September 24, 1953.

[16] See *New York Times,* September 24, 1953.

the problems of these marginal mines; and despite the strenuous objections of Socialist and Communist groups, a plan was eventually formulated whereby the number of pits would be reduced from twenty-two to nine with production being lowered by 1 to 2 million tons per year. The acceptance of this program results in large part from the favorable attitude of the Belgian officials. In early 1955, Industrial Minister Rey announced that the marginal mines in the Borinage had cost the government 437 million Belgian francs in 1954 and added that the treasury could not continue to undertake such heavy expenses.[17] Thus, the government clearly recognized the gravity of the problem and welcomed the financial assistance of the Authority to help in closing the mines and resettling the displaced workers.[18] Nevertheless, despite the acceptance of the Authority's program, serious difficulties are anticipated, for though the readaptation of the displaced miners will take place gradually over a period of several years, no other industries exist in the area to absorb the men and there have already been signs of a reluctance to move even a few kilometers to take advantage of jobs in neighboring fields.[19] This unwillingness to move helps to explain the curious fact that at the very moment when bitter protests were being made against the impending unemployment in the Borinage, coal enterprises in other Belgian fields were recruiting new miners from as far away as Greece to fill their manpower requirements.[20]

Compared with the problems of the Borinage, the situation in the other Belgian mines seems far brighter. A large proportion of Belgian production is composed of anthracites, which are always in short supply and can be sold without difficulty even though the extraction costs are high. Moreover, in the Campine, which

17 See *La Cité*, February 24, 1955.

18 The Authority has agreed to assume all of the costs of readapting the displaced workers. High Authority, Information Service Release, July 22, 1955.

19 The problem of unemployment and readaptation is intensified by the number of men involved and the lack of other industries in the area. Sixty-two per cent of the Borinage's population depends on the coal industry, and 27,000 men are actually engaged in mining. The marginal mines produce 3.15 million tons per year compared with 4.62 million tons for the field as a whole and 30.05 million tons for Belgium as a whole (1953 figures). See *La Métropole*, July 7, 1954.

20 Compare *La Cité*, February 11, 1955, reporting the failure to attract sufficient miners from Italy, with the series of articles by Toubeau in *Le Peuple*, November 4, 5, 6, 7, 8 and 9, 1954.

accounts for 30 per cent of total Belgian production, most of the mines are already competitive as a result of more modern equipment and more workable seams. It is also probable that levels of worker productivity will soon begin to climb at a rate surpassing that of other countries, for the results of the modernization program undertaken in 1949 will become apparent for the first time during 1955 and 1956. Although the situation is therefore far from hopeless, there are a large number of mines that cannot withstand the competition of the Ruhr without a vigorous program of investment, and a failure to push ahead with these plans would thus result in considerable hardship when the subsidy payments are finally terminated. Nevertheless, it is important to emphasize that with the closing of the marginal pits in the Borinage, very few mines will remain which cannot be saved with the aid of adequate investment. Steps have already been taken to encourage these programs, for the High Authority declared in May of 1955 that the subsidy payments, which were formerly distributed to all mines, would henceforth be given only to substandard enterprises that can be rendered competitive through modernization.[21] Thus, the perequation funds will be concentrated on the mines where they are most needed, leaving the firms that are already competitive and those that could never become so to fend for themselves without protection. The efforts of the High Authority will also be aided considerably by the cooperation of the Belgian government, for Belgian officials are anxious to solve the problem of the mines as quickly as possible since the heavy financial assistance from the Community is only guaranteed under the Treaty during the five-year transition period.

2. ITALIAN COAL AND STEEL. The coal and steel industries in Italy are also a potential source of difficulty, though they are protected at present by tariff walls and subsidies. Great efforts have been made to expand and modernize the steel industry

[21] Decision 22-55 of May 28, 1955, included in *Journal Officiel de la Communauté Européenne du Charbon et de l'Acier* (as in the previous chapter, this will be cited as *Journal Officiel*), May 31, 1955, pp. 753-754. A more detailed explanation of the new subsidy scheme is contained in a letter from the Authority to the Belgian government. See *Journal Officiel,* May 31, 1955, pp. 755-758. Belgian producers have objected to the reform and have lodged a complaint with the High Court. *Journal Officiel,* July 23, 1955, p. 853.

and postwar investments reached 250 to 300 million dollars by the end of 1954, with production rising from 3.5 million tons to 4.175 million from 1953 to 1954.[22] The advent of the common market has brought added benefits to the steel producer in the form of greater amounts of scrap at lower prices.[23] Moreover, though the development of the industry is still limited by a small domestic market, consumption rose from 2.5 million tons in 1949 to 3.6 million in 1953 and to almost 5 million in 1954.[24] On the other hand, Italian steel still faces serious problems. In the absence of any substantial coal and ore deposits, producers must often import these raw materials and pay heavy transport charges. Moreover, a low standard of living forces consumption far below the levels prevailing in France and Germany,[25] and the industry is hampered still further by a fragmentation so excessive that only one plant could produce over 1 million tons in 1954 while 44 concerns had an output of less than 25,000 tons.[26]

In general, it would appear that Italian steel will be capable of surviving when protective tariffs are completely removed in three years' time. For though Italian producers are too far removed from the great centers of consumption to become formidable competitors throughout the Community, their heavy investments together with a substantial degree of geographical protection should enable them to withstand the competition of

[22] High Authority, *Third General Report,* April 10, 1955, p. 63.

[23] Italy has concentrated on processes emphasizing scrap rather than iron ore (the Martin and electrical processes), and by 1955 only 10 per cent of her total capacity was utilizing the ore-using Thomas process. Common Assembly, *Rapport de la Commission des Investissements,* Doc. No. 21, 1954-1955, April 1955, p. 17.

For an account of the steps taken by the High Authority to regulate the scrap market, see High Authority, *Rapport Mensuel,* March 1954, pp. III, 1 et seq., and *Third General Report,* April 10, 1955, pp. 81-85. The basic problem encountered has been one of shortage, and the Authority was forced in the summer of 1955 to install a compensation scheme to induce producers to utilize ore instead of scrap. Under this program, approximately $10 will be paid for every ton of steel capacity converted from scrap to iron-ore processes. See High Authority, Information Service Release, July 22, 1955.

[24] See Peco, F., "Progress of the Italian Steel Industry," *Economic Conditions in Italy,* March 1954, pp. 151 et seq.

[25] Per capita consumption in Italy stood at 95 kilograms in 1953 as opposed to 310 in Germany and 200 in France. Common Assembly, *Rapport de la Commission des Investissements,* Doc. No. 21, 1954-1955, April 1955, p. 24.

[26] See Peco, *op.cit.*

foreign firms in the domestic market.[27] In the process of modernization, however, a number of men have been laid off, and the Italian government has had to request the Authority for financial aid to resettle 8,000 workers. Although the Authority has agreed to give assistance, efforts to readapt these men will doubtless meet with considerable difficulty, for there is very little demand for steel workers elsewhere in the Community, and Italy is already burdened with a serious problem of unemployment.

In the coal industry, prospects for the Sardinian mines are particularly dim, for insufficient investment and difficult geological conditions have combined to keep the level of productivity far beneath those in any other member country.[28] Moreover, the quality of coal is both unsuitable for coking and high in sulfur content, and, in addition, the mines face formidable competition on the mainland in the form of cheap supplies of electricity and natural gas. Attempts are being made to widen the Sardinian market by the construction of near-by thermal stations, but it is very likely that a large proportion of the industry's 11,000 workers will find themselves unemployed with only slight prospects of finding work elsewhere.[29]

3. OVEREXPANSION. Passing over the problems faced by protected plants in Italy and Belgium, it is also apparent that the likelihood of widespread reallocation will be enhanced should productive capacity come to exceed demand by a wide and permanent margin, for the existence of considerable unused capacity would increase the incentive for producers to reduce their prices in an

[27] This prediction is substantially that of Mr. Rollman, head of the Steel Division in the High Authority. An analysis of conditions in the Italian steel industry can be found in Common Assembly, *Rapport de la Commission des Investissements,* Doc. No. 21, 1954-1955, April 1955. Two rather optimistic discussions have also been written by Peco, *op.cit.,* and Vaglio, M., "The European Coal and Steel Pool and the Italian Economy," *Economic Conditions in Italy,* March 1954, pp. 164 et seq.

[28] The output per man-shift in kilograms stood at 609 in 1953 and 636 in 1954. Comparable figures for Germany (the Ruhr) are 1,486 and 1,523; for the Nord, 1,277 and 1,349; and in the South of Belgium, 979 and 1,011. See High Authority, *Third General Report,* April 10, 1955, p. 44. Grave doubts have been expressed by the Authority as to whether the Italian mines can be saved by investment. See *Second General Report,* April 11, 1954, p. 96.

[29] A detailed account of the problems facing the Sardinian mines is contained in Common Assembly, *Rapport de la Commission des Investissements,* Doc. No. 21, 1954-1955, April 1955, pp. 30-36.

effort to drive out less efficient competitors. Foreseeing these dangers, the authors of the Treaty conferred certain powers on the High Authority to influence the form and amount of investment through loans and guarantees and to discourage unwise projects by forbidding their financing from outside sources. The Authority is handicapped, however, by the fact that it has no influence over investment in other areas of the economy and must base its policies on difficult long-term forecasts of trends in steel and coal consumption, predictions which depend fundamentally on the general level of economic activity within the various national markets and which might prove to be totally inaccurate in the event of a serious and permanent recession. Moreover, it is problematical whether much headway could be made against a determined effort to expand on the part of producers reinforced by the support of their governments. In recent years, however, the danger of overcapacity has evidently been appreciated in at least some of the member states, for the pattern of investment has concentrated more on rationalizing and modernizing existing installations than on the addition of new plants. Nevertheless, the process of substituting more efficient equipment and techniques is almost inevitably accompanied by a rising capacity, and the Community, which could only produce 42 million tons in the peak year of 1952, is now able to turn out 51.5 million tons a year with every expectation that the level will be raised to at least 57 million tons by 1958.[30] If these figures are compared with the estimates prepared by Professor Tinbergen for the High Authority in 1953, some danger of overexpansion appears to exist, since the report prepared for the Authority predicted that a capacity of 46.5 to 50 million tons would be appropriate for 1958 with a further increase to 52.5-56 million tons by 1963.[31] On the other hand, Professor Tinbergen's study was based on the assumption that the national product throughout the Community would rise on an average of 1 per cent a year, and since economic expansion has been proceeding at a faster rate, his estimates may have been

[30] See *Journal Officiel*, July 19, 1955, p. 824. The production of crude steel proceeded at a rate of 51.5 million tons per year from January to June of 1955. High Authority, Information Service Release, July 8, 1955.

[31] See High Authority, *Exposé sur la Situation de la Communauté*, January 10, 1953, pp. 118-120.

somewhat conservative. In any case, there is thought to be little danger of excessive capacity at the present time,[32] but it is equally apparent that a serious difficulty might arise should economic expansion level off or recede during the next few years. The threat is perhaps most acute in France, for though the level of productivity for her economy as a whole is not appreciably higher than in 1929, steel capacity has increased considerably, and France now depends quite heavily on exports.[33] In recent years, Germany has proved to be her most important outlet, absorbing 243,600 tons in 1952, 486,600 tons in 1953, and 855,900 tons in 1954.[34] These exports may be cut off in the future, however, as increasing efforts are made in the Ruhr to expand production to equal domestic demand. The reactions of the High Authority are uncertain, but no financial aid has yet been given to the steel industry, and the Authority has indicated that it favors the modernization of existing installations but not the erection of new plants. In addition, its financial experts have thus far supported the view that the interests of the Community will be served best by concentrating all assistance upon the iron and coal enterprises. As a result, the steel industry received no part of the 158 million dollars

[32] See, e.g., Common Assembly, *Rapport de la Commission des Investissements,* Doc. No. 15, 1953-1954, April 1954, pp. 35-38.

[33] According to Svennilson, crude steel output was 9,711,000 tons in 1929, the peak postwar year. *Growth and Stagnation in the European Economy,* Economic Commission for Europe, Geneva, 1954, pp. 262-263. In 1954, production was 10,626,000 tons, and the capacity is doubtless somewhat greater. The disparity becomes wider if the productive capacity of the Saar is included in these figures, 2,804,000 tons having been produced there in 1954. High Authority, *Third General Report,* April 10, 1955, p. 63. Exports of steel from France and the Saar totalled 2,129,500 tons in 1954, whereas they were less than 1,000,000 tons as late as 1950. See High Authority, *Third General Report,* April 10, 1955, p. 65. Moreover, French plans call for a further expansion to 19 million tons' capacity in 1957 and 21 million tons in 1959. Chardonnet, J., *La Sidérurgie Française,* Paris, 1954, p. 217. Curiously enough, exports from France in 1929, again a peak year, were 3,718,000 tons according to Svennilson, *op.cit.,* p. 126. The increase in domestic consumption is thus considerably in excess of any change in national income, and since the level of imports was not greater in 1929 than 1954, the only explanation would appear to be a change in consuming habits, presumably resulting in large part from an increase in the purchase of consumer durables such as automobiles. This trend is confirmed by the Economic Commission for Europe, *The European Steel Market in 1954,* Geneva, June 1955, pp. 91-92. The duration of this tendency in consumer habits is probably uncertain, thereby providing an additional threat to French producers in future years.

[34] See High Authority, *Third General Report,* April 10, 1955, p. 72.

that was distributed in loans prior to April 1955.[35] It is difficult to determine the extent to which the Authority was influenced in the formulation of this policy by the potential impact of German expansion upon the steel enterprises in other member states. In any case, it is certain that steel men in the Ruhr were hard hit by the decision, for investment funds have been very scarce in Germany since the war. In recent months, however, the capital market has shown definite signs of improvement, and it is possible that during the next few years Ruhr producers will encounter no further obstacles in financing their investment projects. Should German expansion become imminent, serious tensions could arise in France, and it is conceivable that considerable pressure would be exerted upon officials in Luxembourg. These pressures might not be wholly without merit, for so long as the Community's needs could be adequately supplied, the slight savings in cost to be accomplished through German expansion might be considered too small a return for the economic hardships inflicted upon the industry in France. In any event, the response of the Authority to this important problem will provide a most significant indication of the role to be played by the Community in influencing the growth of the Continental steel industry.

4. THE THREAT OF THE RUHR. Beyond the problems resulting from an expansion in German steel lie more fundamental questions involving the potential effects throughout the Community of the competition of the Ruhr. As yet, German producers have had little incentive to seek new markets in the other member states, for a steadily rising level of economic activity in Germany has largely absorbed domestic supplies of coal and steel and has even required increasing imports of steel from France and Belgium to fulfill the growing local requirements, as is shown in the table on the following page.

Nevertheless, the threat of competition from the Ruhr is regarded with apprehension in several of the member countries, and some attempt must be made to determine the extent of the dangers involved.

The potentialities of the Ruhr can perhaps be best explored through a comparison of the competitive positions of coal and steel in France and Germany. Despite the heavy investment in French

[35] See *ibid.*, pp. 131-138.

STEEL EXPORTS FROM COMMUNITY COUNTRIES TO GERMANY
(Thousands of tons)

	1953	*1954*			
		Total	*1st qtr.*	*2nd qtr.*	*3rd qtr.*	*4th qtr.*
Belgium (and Luxembourg)	458.4	665.8	112.8	154.8	117.0	221.2
France (and the Saar)	483.6	865.9	136.8	199.8	243.6	275.7

Source: High Authority, *Third General Report,* April 10, 1955, p. 72. Germany is also expected to increase her imports of hard coal in 1955-1956 both from Europe and more particularly from the United States. See High Authority, Information Service Release, July 30, 1955.

steel under the Monnet Plan, which led to the installation of two continuous wide-strip mills and extensive concentration and modernization,[36] French producers found it difficult to match German prices when the common market opened, a phenomenon which is all the more striking in view of the fact that Ruhr producers had raised their prices by 20 per cent only a few months before. Moreover, though the level of investment in France has regularly exceeded that of Germany, French investment is scheduled to decrease steadily over the next few years while higher profit margins in the Ruhr should enable German producers to continue to plow large sums into their steel mills.[37] Already in 1954, nearly a billion marks was invested in German steel and producers pushed ahead with a process of rationalization and integration to remedy

[36] An account of the French postwar investment program can be found in *Le Monde des Affaires de 1830 à Nos Jours,* Paris, 1952, pp. 123-129. See, also, Chardonnet, *op.cit.,* pp. 213-220. In brief, the French program was carried out along two lines. In the first place, extensive modernization took place resulting in the installation of much new equipment, particularly the two wide-strip mills that were introduced, one in Lorraine and one in the Nord. In the second place, partly as a result of the size and capital needs occasioned by the new equipment, extensive concentration was carried out: Two new combines (though with very different corporate structure) were created, Sollac and Usinor, each being endowed with a wide-strip mill. As a result of this movement, well over half of the total French output is concentrated in the hands of six firms—the two already mentioned plus Sidelor, Lorraine-Escaut, de Wendel et Cie., du Creusot, and Compagnie des Ateliers et Forges de la Loire. The effects of the modernization and concentration were to raise production of pig iron by 48 per cent, of steel by 50 per cent and of flat products by 51 per cent. Figures taken from Chardonnet, *op.cit.,* p. 217.

[37] The trends in French and German investments in steel are noted in Economic Commission for Europe, *The European Steel Market in 1954,* Geneva, June 1955, pp. 66-67.

the fragmentation of the industry that was carried out under the decartellization decrees of the occupation.[38] If this program of rationalization continues, it is likely that a long tradition of efficient and integrated economic organization will provide the Ruhr with an advantage over French competitors, who are not accustomed to placing such emphasis on administrative and organizational efficiency.[39] French producers are further handicapped by the advantages enjoyed by the Ruhr in the field of transport. In addition to the high shipping costs on imports of coke, Lorraine producers are burdened by an inadequate system of rivers

[38] The Allied program after the war proceeded along three lines. In the first instance, some 5 million tons of steel capacity was dismantled as reparations. Secondly, maximum production quotas were imposed, which were gradually increased, and then were abandoned entirely with the opening of the common market. Third, decartellization was carried out, featuring the fragmenting of the great Vereinigte Stahlwerke (which controlled 39 per cent of total German output before the war) into thirteen separate companies. Moreover, a law was passed (it is still in existence) prohibiting steel plants to control more than 75 per cent of their needs in coal.

As a result of the concentration recently undertaken by the German firms, at least 70 per cent of total production is now in the hands of eight concerns. See Rieben, *op.cit.*, pp. 465-469, and Pritzkoleit, K., *Männer, Mächte, Monopole,* Düsseldorf, 1953. Analyses of the recent concentration movement can be found in Huffschmidt, B., "Neue Methoden bei der Ordnung der deutschen Montanindustrie," *Volkswirt,* January 8, 1955, and Blun, G., "Prospérité Économique et Récartellisation en Allemagne," *Libre Belgique,* January 8, 1955.

An interesting new development in the Ruhr has been the increase in foreign holdings, partly made possible by forced sales under the decartellization program. Thus, it is estimated by *Ruhr-Nachtrichten,* August 22, 1954, that 20 per cent of coal and 25 per cent of steel capacity in the Ruhr is in foreign hands. Figures given by *Perspectives,* October 9, 1954, pp. 2-3, are 20 per cent for coal and 30 per cent for steel.

[39] See Perroux, F., *Europe sans Rivages,* Paris, 1954, pp. 532 and 568-569.

Accounts of the history of industrial organization in the Ruhr and in France are numerous. See, e.g., Chardonnet, *Les Grands Types de Complèxes Industriels,* Paris, 1953, pp. 31-46 and 46-56; *Le Monde des Affaires de 1830 à Nos Jours,* Paris, 1952, pp. 80-130; Pounds, N. J. G., *The Ruhr,* Bloomington, Indiana, 1952, Chaps. 4 and 5; Gehle, "La Ruhr dans l'Histoire Économique," in *Problèmes de l'Industrie Allemande Occidentale,* Offenburg, 1954, pp. 107 et seq.; and Rieben, *op.cit.,* pp. 103-120 and 120-145. One of the most striking facts that emerge from these accounts is that while the French showed great ability to organize and control a large number of producers in order to preserve and protect the status quo, the Germans paid much greater attention to the development of Ruhr industry into the most efficient possible technical machine. See the fascinating analysis of the psychology of the French businessman made by Landes, D. S., "French Business and the Businessman," in *Modern France,* Princeton, 1951, pp. 334 et seq., and compare with Brady, R. A., *The Rationalization Movement in German Industry,* Berkeley, 1933, especially pp. 84-85 and 107.

and canals which forces them to send their steel to Dunkirk and Antwerp by rail at a cost of approximately 2,050 francs, while German firms can transport their products by water for the equivalent of 330 francs. As a result, German producers have a clear cost advantage in selling to overseas markets. More serious still, the Ruhr can transport steel more cheaply than Lorraine to French North Africa and to the Mediterranean and southwest coasts of France itself, thus giving the Ruhr an advantage in markets which absorbed 750,000 tons of French steel during 1950.[40]

In the coal industry, German competition could have its greatest impact in the Paris market, which is vital to the Nord–Pas-de-Calais fields. Thus far, the Nord has succeeded in maintaining a sufficient cost advantage both because of its proximity to the French capital and because of the steady progress that has been made in modernizing the coal fields. Much new equipment has been installed since the war, and the number of pits has been reduced from 110 to 75 with a further reduction to 50 being contemplated for the next few years.[41] As a result, each pit produces far more than before the war, and the levels of worker productivity have been rising at a rate that clearly surpasses that of the Ruhr.[42] Despite these substantial improvements, the greater part of the Nord's cost advantage will be wiped out by the reduction in international transport rates occasioned by the removal of the *rupture de charge*. Moreover, as time goes on, investments will yield decreasing gains in efficiency, and the level of investment itself may be reduced under the pressure of the heavy debt burdens already carried by the mines.[43]

The problems of the French coal owners, however, are offset to some extent by the serious difficulties encountered by their German

[40] See Chardonnet, *La Sidérurgie Française, op.cit.*, pp. 172-173.

[41] The program of modernization and concentration is summarized in "Avis et Rapports du Conseil Économique," *Journal Officiel de la République Française,* April 2, 1954, pp. 347-348.

[42] See table, page 60 supra.

[43] The debt burden is reported to have risen from 175 to 278 francs per ton from 1953 to 1954; at the same time, the burden on Ruhr mine owners is estimated at 35 francs per ton. "Avis et Rapports du Conseil Économique," *Journal Officiel de la République Française,* April 2, 1954, p. 353. French coal men have asked that 255 billion francs in past loans be relieved of all interest charges. *ibid.*

competitors, for the Ruhr has thus far failed to raise the levels of worker productivity to anything like the figures achieved before the war. These problems result in large part from insufficient concentration and mechanization and from the high percentage of aged and disabled miners employed in the Ruhr.[44] Investment is hampered by a serious shortage of capital, and it is possible that the mines will not be able to carry out their modernization plans in full during the next few years.[45] At the same time, though efforts to recruit young workers have caused the average age of the German miner to decrease steadily over the past few years,[46] the employment of older men is a problem that can be eliminated in practice only through a gradual process of retirement and replacement. Still greater obstacles result from the fact that the best coal seams in the Ruhr were overexploited under the Nazi regime, thus suggesting that German mines may never regain the productivity levels enjoyed before the war. In view of all these problems, Ruhr coal does not appear to represent as serious a threat to France as German steel. Nevertheless, production costs in Germany are generally lower than those in France, and there is little doubt but that the Ruhr mines are capable of underselling the Nord in many areas of western France. It is also quite likely that the skill and ingenuity of the German producers will succeed in making considerable improvements over present conditions.[47]

[44] German law prescribes that each mine shall employ a certain percentage of disabled miners.

[45] See, e.g., "Industrial Germany," *Financial Times* (London), September 13, 1954, p. 5. Between 1948 and 1953, 3 billion marks were invested of which 1,700,000 were provided by autofinancing. Estimates for future needs are 4.7 billion marks from 1954 to 1957 and 5.5 billion from 1957 to 1961. Mine owners are unaware of precisely where the necessary capital can be raised.

[46] The average age of the German miner decreased from 37.9, 1949; to 37.1, 1950; 36.1, 1952; 35.6, 1953. These figures camouflage the fact that the mining force is heavily weighted with very young and very old miners, for the percentage of miners in the most desirable age group (30 to 40 years) has diminished markedly. Thus, the number of workers from 15 to 30 years increased from 38.5 per cent (1950) to 44.5 per cent (1953), the percentage of workers from 30 to 40 decreased in an inverse rate, and the percentage of miners over 40 remained constant. See High Authority, *Documentation sur les Problèmes du Travail dans les Industries de la Communauté,* May 1954, pp. 31, 33, and 67.

[47] An interesting account of the position occupied by Ruhr coal in the past together with predictions regarding the ultimate superiority of the German mine owners is contained in Sethur, F., "The Schuman Plan and Ruhr Coal," *Political Science Quarterly,* December 1952, pp. 503 et seq.

Should such progress take place, a continuing burden will be placed on the Nord mines, for if the levels of productivity fall further behind those of the Ruhr, German coal will probably be able to reach the Paris market at a lower price than that of the Nord, particularly if the levels of money wages, social charges, and fiscal burdens continue to favor the German producers.

In examining the potential effects of Ruhr competition, the fact that strikes one is the influence exerted by market conditions. The requirements of nondiscriminatory pricing coupled with the obligation to publish prices transform price competition into a very cumbersome and expensive tactic which the German producers are not likely to employ so long as they can continue to market the bulk of their production within their own domestic market. Any attempt to lower prices uniformly below the levels offered by French producers would cost the Germans dearly, for the French could presumably hold out for some time, thus burdening the Ruhr firms with a serious loss of revenue and a possible curtailment of their investment plans. On the other hand, a serious overcapacity, which could typically result from a sharp and prolonged recession, would intensify the urge to find new markets and might thus induce the Ruhr producers to lower prices uniformly to levels that could not be permanently matched by their French competitors. The very existence of the Community would then depend on the willingness of the High Authority to impose production quotas and minimum prices, for the pressures arising from unrestrained competition might otherwise become insupportable in view of the exchange and unemployment problems that would be inflicted upon France.

V. Conclusion

A. The Economic Achievements

With this discussion of a number of individual problems, an attempt may be made to summarize the progress of the Community and make some estimate of its prospects in the future. After two years of active operation, the High Authority still faces serious obstacles in its attempt to create a common, competitive market. Many artificial factors affect the competitive position of the various firms, and though differences in wages, tax burdens, and social security charges may be evened out eventually through governmental and business pressure, the transport problems seem likely to remain, providing the enterprises in certain countries, notably Germany, with a measure of artificial protection. In addition, the problem of exchange rates remains unsolved and promises to create serious tensions in the event of an inflation or depression in one or more of the member states. More fundamental still, the goal of competition remains largely unattained; in fact, the problems of housing, labor mobility, and exchange balances seem to place definite limits on the amount of competition that can be tolerated, at least for the present. It may yet be, of course, that continued modernization together with a measure of geographical protection will eventually place the firms throughout the Community on sufficiently equal footing to permit more active competition without risking intolerable shifts in production from one area to another. It is more likely, however, that vigorous competition will never take place within the common market, for so long as the High Authority and the member governments can influence investment sufficiently to avoid a serious problem of overcapacity, the incentive to compete in other countries will be slight under stable or rising market conditions, and the requirements of publication and nondiscrimination will probably result in price parallelism at levels exceeding those that would prevail under competitive conditions. At the same time, an economic recession or any other trend producing serious overcapacity would strengthen the incentives for vigorous competition, and many areas in the Community might find themselves at a cost disadvantage in relation to the Ruhr which could not be quickly overcome by heavy invest-

ment. The Authority would probably feel compelled under these circumstances to impose quotas and minimum prices in order to satisfy governments and business groups that might be willing to disregard the Treaty rather than suffer competition to take its course.[1] Thus, prices show little promise of being competitively determined, for regardless of the state of the market, figures will probably be set above the competitive level either through parallel pricing or by action of the High Authority.

Although the competitive market may fall short of the ideal, a realistic assessment of the Community cannot rest upon a comparison with the largely theoretical "perfect competition" but must rather contrast the common market with the trade restrictions and the international cartel which would presumably have existed in the absence of the Plan. From this point of view, the advantages of the Community are undoubtedly substantial. It is quite certain that the elimination of trade barriers and double pricing has lowered the cost of imported raw materials and has permitted a number of consumers to shift to more efficient sources of supply. Moreover, though prices may tend to exceed competitive levels, the existence of publication requirements and the threat of maximum prices will probably serve to keep profits below those that would be enjoyed by a cartel. It is also possible that critics may carry the principle of competition too far and neglect the fact that the savings to the public to be derived from genuinely competitive prices are relatively small compared with the potential effects of modernization.[2] Rather than competition, it is the

1 The history of business tactics in the steel industry is marked by the great desire of the producers to protect themselves against the effects of recession and cut-throat competition. It was this motive which was largely responsible for the Stahlwerksverband, the Comité des Forges, the British Iron and Steel Federation, the First and Second International Steel Cartels, and the Brussels export agency. This problem results in large part from the combination of high fixed costs and a fluctuating market described in Chapter III, footnote 49. The brief periods of vicious competition, such as that of 1931-1933, have left a strong distaste among the producers, and the pressures to avoid a repetition of this experience would doubtless be strong. This theme is elaborated in great detail by Rieben, H., *Des Ententes de Maîtres de Forges au Plan Schuman*, Lausanne, 1954, pp. 18-308.

2 This argument has been expounded in more general terms by certain prominent economists, notably J. A. Schumpeter. See *Capitalism, Socialism and Democracy*, New York, 1942, Chapters 7 and 8. Indications of the potentialities of modernization and new techniques may be derived from documents of the Economic Commission for Europe, *European Steel Trends in the Setting of the World Market*, Geneva,

introduction of new techniques and more vigorous efforts to secure wider markets that will go the furthest in bringing greater quantities of coal and steel at lower prices. In this respect, the Community may prove most beneficial, for in a common market where practices in restraint of trade are prohibited and an authority is provided for their suppression, there is an atmosphere sufficiently lacking in certainty as to compel the producers in each country to modernize. If competition is not yet a reality, it may become so in six months or two years, and producers cannot afford to lag behind in the long-term investment plans that will be necessary to permit them to compete if the occasion should arise. Thus, the Schuman Plan has undoubtedly played a part in stimulating the programs of concentration and modernization that have proceeded with great vigor in the coal and steel industries throughout the common market. It is impossible, of course, to measure the extent of the incentive provided by the Community, for the question is largely subjective in nature and there are a number of influences at work. Partisans of the Plan have occasionally asserted that the impact of the Community was already appreciable immediately following M. Schuman's call for a common market in 1950. But though his speech was paralleled by increasing efforts to modernize and expand in France and other countries, it is probable that the dominant motive behind these programs was the prevailing feeling of economic inadequacy and the growing need to reestablish the predominance of European steel in the world market. On the other hand, there can be little doubt that since the ratification of the Plan in 1951, the high levels of investment in countries such as Belgium and Italy have been caused in large part by the threat of competition without protection. Moreover, there are a number of concrete examples of concentration and modernization that can be traced quite clearly to the common market. A leading example is the integration of four French enterprises into the Compagnie des Ateliers et Forges de la Loire, for all of the constituent firms had been urged to unite for many years but did not do so until

1949, pp. 78-85, and *The European Steel Industry and the Wide Strip Mill*, Geneva, 1953. On the need for securing wider markets, see ECE, *The European Steel Market in 1953*, Geneva, 1954, pp. 41-93.

the pressures of the common market made the action unavoidable.[3]

In giving added impetus to investment, the Community represents a clear improvement over the situation that would probably have prevailed under an international cartel, with its system of fixed prices, quotas, and protected markets. Moreover, the importance of the recent investment programs can hardly be overestimated, for at the close of the last war the European steel industry was undoubtedly in great need of modernization—the most modern plants in France were those that were constructed just after 1918, and the average age of German mills was estimated at forty-two years.[4] In addition, there was a pressing need for wide-strip mills, for while this new technique was extensively used in the United States throughout the 'thirties, with great savings in costs and manpower, only one such mill was in operation on the Continent when the Second World War broke out.[5] There can be little doubt but that this ossification in technique was largely due to the extensive cartellization that existed before the war.[6] Hence, if the Community served only to stimulate investment and modernization throughout the common market, it would nevertheless represent a substantial improvement over the conditions that would probably have otherwise prevailed. The effect of the Community upon investment, however, depends upon an aura of uncertainty created by the threat of competition accompanied by an inability to predict with accuracy the reactions of the Authority in the event of a depression. For this reason, considerable importance may be attached to the efforts of the Authority to remove restrictive practices, such as those employed by the coal selling organizations, and to permit, although with appropriate palliative measures, the elimination of the marginal enterprises throughout the Community. A failure to surmount these obstacles could lead

[3] See High Authority, "New Deal for French Steel," Bulletin from the European Community for Coal and Steel, January 1955, pp. 1 et seq.

[4] These figures are taken from Svennilson, I., *Growth and Stagnation in the European Economy,* Economic Commission for Europe, Geneva, 1954, p. 131.

[5] See *ibid.,* p. 132.

[6] In summarizing the stagnation of investment and new technique in the European steel industry between the two great wars, Svennilson concludes that "Finally, and perhaps most important, the introduction of large capacity mills would have completely upset the prevailing quota system of existing cartels. New investment of this kind by any individual firm would probably have been regarded as offensive by other members of a cartel." *ibid.,* p. 133.

producers to doubt whether active competition will ever take place, and should such sentiments grow sufficiently strong, the incentive to keep abreast of the firms in other countries might be diminished, thus depriving the Plan of its most substantial economic benefit.

B. The Political Repercussions

A few words remain to be said concerning the progress of the Community in achieving its political objectives, for there is reason to believe that the consequences of the common market may prove to be quite different from those that were widely advertised at the Plan's inception. To those who hoped for a "containment" of German steel, the rapid expansion, the mergers and concentrations, and the increasing levels of investment cannot help but be disquieting. Nor has there been the degree of economic interdependence between France and Germany that some observers hoped would exist, so as to lessen the risks of a future war between the two countries. For even if it is assumed that interdependence could have such an effect, the fact remains that railroad cars continue to flow from the Ruhr to Lorraine without returning laden with French iron ore. More paradoxical still, the foundations of cooperation and better understanding that were to result from the common market are not nearly so evident as the tensions of economic rivalry. This tendency is not altogether unexpected, for the continued efforts of keeping step with producers in the other member countries and the disputes concerning the few artificial advantages that remain in areas such as transport are not likely to produce an atmosphere of solidarity among the national business groups. On the governmental level, the obvious interest of an administration in avoiding unemployment and conserving basic industries causes it to look with apprehension on other countries which threaten domestic firms.

These tensions appear to minimize the chance of creating new economic pools patterned after the Schuman Plan, and they may even succeed in blocking further progress within the Community itself. Transplanted from a network of national states, the common market is clearly overshadowed by the countries from which it was created. For though it may be international in theory, the Community must in practice depend upon the member states both

for the selection of its officials and for the enforcement of its decrees. As a result, no controversial measure can be safely enacted unless it commands the assent of at least a majority of the participating governments, for these governments might hamper the operation of the common market in innumerable ways and could even bring it to a standstill by merely refusing to continue giving their wholehearted cooperation.

Despite this dependence upon the good will of the participating states, the Community may very well continue to function effectively. If the Community should succeed, however, its good fortune must be attributed primarily to the general lack of great disparities in production costs and to the substantial geographical protection afforded by heavy transport charges. In any industry where these safeguards are not present, considerable danger would attend the creation of a common market patterned after the Schuman Plan. For there is very little evidence that readaptation funds and international work permits provide a sufficient answer to the problems that would result if a substantial number of less efficient firms were forced out of business. In fact, the attempts of the Authority to move 5,000 French miners from Cevennes to Lorraine suggest that the provisions of the Treaty are largely inadequate for this purpose. In this respect, the Schuman Plan has proved to be a sharp disappointment. It seems reasonably clear that the significance of the Plan was not limited merely to its potential effects upon the coal and steel industries; in the last analysis, the critical question posed by the Community was whether or not an international economic institution had been devised which could remove the deeply rooted disadvantages of the European economic system without inflicting an intolerable albeit temporary burden upon industry and upon the public as a whole. Thus far, the record of the Community indicates that this question must be answered in the negative and that the Schuman Plan in consequence will provide little encouragement for governments to extend the common market to industries where substantial cost differences exist between the constituent firms. In these industries, the risks arising from competition without protection will probably appear too great to be undertaken by the govern-

ments of Europe, committed as they are to full employment and often under continuous attack from the Communist party.

Unfortunately, if Schuman-like pools are politically possible only in industries enjoying relatively close costs, integration will be largely excluded from those economic areas in which it would in the long run prove most beneficial. A possible way around this obstacle might be found in a wider integration, simultaneously grouping a number of products within a single common market so that contractions of certain industries in any member state would be compensated by expansion in other fields. A comprehensive scheme of this nature, however, would nevertheless raise serious risks of short-term economic dislocation and could not rationally be attempted without considerable improvement in the housing situation with a resulting impetus to labor mobility. Moreover, since such widespread integration would make each member economy more sensitive to conditions in the other states, some degree of power or influence over all investment and planning might be called for. The prospects for further unifying projects, therefore, are caught on the horns of a dilemma, for piecemeal integration cannot be introduced in the areas which need it most, while truly comprehensive integration appears to be too large a step to be taken under present political conditions. There is, however, a strong possibility that additional pools will be created for certain individual industries, notably transport and energy, and the importance of such plans in transforming Schuman Europe into a truly influential political entity should not be underestimated. On the other hand, even the Schuman Plan, which profited from industries in a comparable state of development with the promise of considerable geographical protection, owes its existence to a fortunate combination of circumstances in which the dominant political parties in all the major countries were markedly pro-European during a period when the economic and political weaknesses of that continent were acutely felt. Since these parties are not so strong as they once were and since Europe's political and economic tensions are considered less critical, the present climate does not seem favorable for any new far-reaching plans of integration.

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